1998 Boeing Annual Report

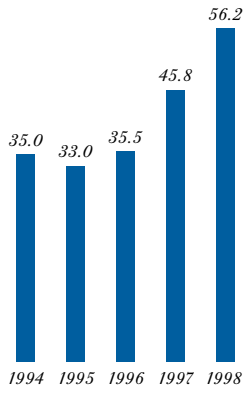
BOEING®

The Boeing Company, based in Seattle, Washington, is the largest aerospace company in the world, as measured by total sales, and the nation's leading exporter. Boeing is the world's largest manufacturer of commercial jetliners and military aircraft, and the nation's largest NASA contractor. The company's capabilities in aerospace also include helicopters, electronic and defense systems, missiles, rocket engines, launch vehicles, and advanced information and communication systems. The company has an extensive global reach with customers in 145 countries and operations in 27 U.S. states. At year end 1998, Boeing and its subsidiaries employed approximately 231,000 people.

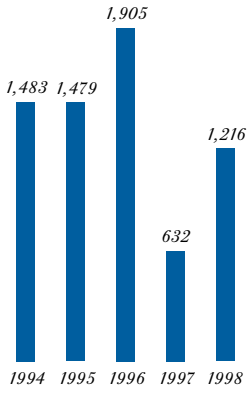
Financial Highlights

The merger of The Boeing Company and McDonnell Douglas Corporation was effective August 1, 1997. All current and historical information reflects the combined company.

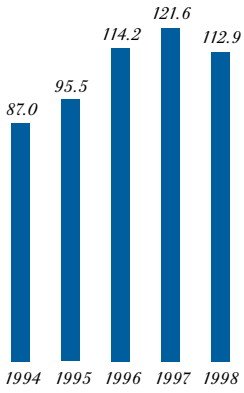
(Dollars in millions except per share data)	*1998*	*1997*	*1996*	*1995*	*1994*
Sales and Other Operating Revenues	$ 56,154	$ 45,800	$ 35,453	$32,960	$34,969
Comparative Net Earnings	1,216[a]	632[b]	1,905[c]	1,479[d]	1,483
Comparative Earnings per Share	1.25[a]	.64[b]	1.94[c]	1.49[d]	1.48
Contractual Backlog	112,896	121,640	114,173	95,488	86,956
Research and Development	1,895	1,924	1,633	1,674	2,076
Capital Expenditures, net	1,584	1,391	971	747	883
Cash and Short-term Investments	2,462	5,149	6,352	4,527	3,064
Customer and Commercial Financing Assets	5,711	4,600	3,888	4,212	5,408
Total Debt	6,972	6,854	7,489	5,401	5,247
Cash Dividends	564	557	480	434	395



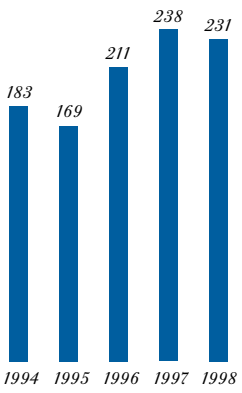
Sales and Other Operating Revenue
(Dollars in billions)



Comparative Net Earnings
(Dollars in millions)



Contractual Backlog
(Dollars in billions)



Year-end Workforce
(in thousands)

(a) Comparative net earnings of $1,216 or $1.25 per share are exclusive of the share-based plans. Net earnings including the share-based plans were $1,120 or $1.15 per share.

(b) Comparative net earnings of $632 or $.64 per share are exclusive of the special charge principally associated with Douglas products (MD-series aircraft) and the share-based plans. Net loss including the special charge and the share-based plans was $178 or $.18 per share.

(c) Comparative net earnings of $1,905 or $1.94 per share are exclusive of the share-based plans. Net earnings including the share-based plans were $1,818 or $1.85 per share.

(d) Comparative net earnings of $1,479 or $1.49 per share are exclusive of the special charge associated with Douglas products (the MD-11 program) and the special early retirement program. Net loss including the special charge and the special early retirement program was $36 or $.04 per share.

Harry C. Stonecipher and Philip M. Condit

Message to Shareholders

Financially, 1998 did not turn out the way we planned. Far from it.

There are three things we hope to accomplish in this letter. First is to acknowledge dissatisfaction with our 1998 results. Second is to show what we have done and are doing to improve. Third is to be clear about our primary goals and objectives and our absolute commitment to achieving them.

Following a loss in 1997, Boeing posted net earnings of $1.1 billion in 1998. While that is progress, it leaves us in the bottom quartile of S&P 500 companies in standard measures of profitability. Our overriding goal is to return Boeing to the top quartile of companies both in profitability and in total return to shareholders. In working toward our long-term goal of 7 percent after-tax for Boeing as a whole, we will need to raise operating margins in each of our three principal businesses to double-digit levels.

That means achieving a slightly higher level of profitability in military aircraft and missiles despite static defense budgets. It means doubling our operating return on revenues in the fast-growing and highly competitive field of space and communications systems. It means returning to peak levels of profitability in our commercial aircraft business, which was about break-even in 1998.

Is all that within our power?

Absolutely.

But only by embracing change.

Around the world, the "Boeing" name is synonymous with airplanes and aerospace products in much the same way that "Coke" is with soft drinks or that "McDonald's" is with fast food. We are proud of the extraordinary reputation of our products. And we will continue to push the boundaries of technology, inside and out of the earth's atmosphere. This is what we do best. It is, in a deep sense, who we are.

But a company does not exist simply to make great products – however exciting and important. It exists to serve its customers and shareholders.

If we have had to learn this lesson the hard way, be assured: We have learned it.

Today's Boeing is a *team*. A team is competitive and focused. Its objective is to win. In a business, that means beating the competition both in satisfying customers and in earning superior returns for shareholders.

Great teams share certain characteristics. They are passionate about achieving results. They provide plenty of room for diversity and creativity. But none for non-performance. And while they often have the best players, they *always* have the players who are the best at working together.

The starting point in building a high-performance team is leadership.

Over the past year, we put together a group of leaders at the top of this company who possess outstanding business skills as well as technical skills, and who share a common commitment to building their organizational structures around high-performance teams.

We have gone outside the company to get the best possible talent in several key positions. And we have moved some of our best leaders from one part of the company to another – to put them where they are most needed. In particular, there is a new leadership team in the commercial airplane business.

Clearly, we must raise productivity. But – cynics to the contrary – that is not a matter of getting half the number of people to work twice as hard on the same set of tasks. It means changing processes to increase efficiency. It means giving everyone on the team an important role to play in meeting the ever-present objectives of improved quality and reduced cost. Last but not least, it means keeping score – in a way that everyone can understand.

During the course of 1998, we put 22,000 people in our company through a two-day course called "Taking Care of Business," aimed at providing them with a fundamental understanding of the financial tools needed to make decisions and to communicate effectively with other members of their teams.

As we see it, a team should be highly supportive, as well as intensely demanding. That is why we have initiated sweeping changes in the way we train people and support lifelong learning. People must take responsibility for developing their own skills and careers. But we, as a company, are prepared to support self-betterment, not just with kind words, but with real dollars. In 1998, Boeing invested $52 million in tuition payments for employees pursuing technical training and college studies. In doing so, we upped the budget in this program by 42 percent. We will increase it still further in 1999.

Finally, team is an *inclusive* concept – in terms of opportunity and diversity, certainly; but also in terms of responsibility and rewards.

Boeing is one company – with one stock price. Shareholder value is the single most important measure of our long-term success. To create superior returns to shareholders, we are now looking at every single program with an eye toward maximizing value. Nothing will escape scrutiny, and we are focused on fixing or eliminating those programs which destroy value, and enhancing the value of every program in The Boeing Company.

Business Review and Outlook

Boeing designs and builds a full line of products serving all three principal aerospace markets – commercial, military and space. This gives us unrivaled breadth and balance – including the ability to move best practices from one area of the business to another. We see clear opportunities for profitable growth in all three markets. We also recognize that there is one common denominator to achieving success.

Value – providing the most gain for the least cost – has become the big driver in everything we do. Anywhere and everywhere, the challenge is: How can we provide better value?

The answer for us involves great teamwork in making the most of our three core competencies:

- detailed customer knowledge and support
- large-scale integration
- lean design and manufacture

What that means in practice may be seen from the review of our three principal business groups that follows.

Space and Communications

Space and communications is the business with the highest growth potential for Boeing – for two reasons. First is the rapid growth in space-based communication, information-gathering, and the demand for low-cost assured access to space. Second is our own success in driving down the costs both of getting into space and of operating complex space-based systems.

In 1998, Boeing won two critically important pieces of new business in the space arena.

First, we won the lion's share of the Air Force's Evolved Expendable Launch Vehicle (EELV) program. The Air Force set a goal of reducing the cost of putting medium and heavy payloads into orbit by 25 percent. Our Delta IV family of launch vehicles will reduce the cost by a number closer to 50 percent.

Due to a lean design that reduces the number of unique parts by 93 percent and the number of welds by 95 percent, the Boeing RS-68 engine that will power our Delta IV on 19 missions between 2002 and 2006 will be built at a fraction of the cost of the Space Shuttle Main Engine – and yet it will have 50 percent more thrust.

Second, we were selected by the Air Force as lead system integrator for the National Missile Defense program. This is a program where civil-military partnership, large-scale integration, and lean design and production all come into play in providing an integrated solution to an exceedingly complex problem.

Using an array of space- and ground-based assets, Boeing will build a system for detecting, tracking and destroying missiles before they re-enter the earth's atmosphere. This system is being designed to provide the United States with protection from a growing number of potential adversaries with long-range ballistic missile capabilities. We are also working on essentially all of the Pentagon's theater missile defense systems that are designed to protect troops in the battlefield – including the Airborne Laser, third-generation Patriot, and a sea-based system known as Navy Theater Wide. In our Electronics Systems business we won a key award as part of the ICBM Prime team, and received go-ahead for low-rate initial production of the Minuteman III Guidance Replacement Program (GRP). We anticipate the GRP full-rate production contract this fall.

Boeing increased its revenues in the space and communications area in 1998, and we expect to grow at a substantially faster rate in the years ahead, based upon our existing order book and the wide array of capabilities we now have for pursuing opportunities in civilian or commercial space.

The new Delta IV family of launch vehicles – being developed in partnership with the Air Force – will also serve as a valuable extension of our launch capabilities in serving commercial customers. We are a leader in rocket engines, integrator for the Space Shuttle, and the prime contractor for the International Space Station. In our Information & Communications business we are adding to our legacy as builder of the first 40 Global Positioning System (GPS) satellites with work on follow-on GPS satellites, and we continue to make significant investments in new satellite communication networks.

Military Aircraft and Missile Systems

Nothing succeeds in a static defense market like products and programs that *work* – exactly as expected. Our efforts in this business are concentrated on improving already good margins and winning an increased share of the market through a demonstrated ability to satisfy a wide array of current and future requirements.

Boeing is the only aerospace company in the world with five front-line fighters and trainers in current production. Every one of them, including the F/A-18E/F Super Hornet, which is now in flight test and low-rate production, is on schedule, on cost and on target in meeting or exceeding expected performance. We are also ahead of schedule and, we believe, right on target at this stage of the critically important Joint Strike Fighter competition.

The Joint Strike Fighter, or JSF, has been designated as a high-volume, low-cost replacement for no fewer than seven different aircraft. As such, it must be extraordinarily versatile, stealthy, and very affordable.

Like our winning entry in the EELV competition, we believe our approach to JSF will deliver an unbeatable combination of affordability and performance as a result of providing an integrated solution to a complex, multi-purpose requirement. Our JSF team has remained absolutely true to the original concept of the Joint Strike Fighter as essentially one aircraft – with variations for Air Force, Navy and Marines – rather than different aircraft with some commonality. We see this as a critical factor in achieving the leanest design-and-build strategy – and thereby driving down both the fly-away cost and the life-cycle cost of the aircraft for each of the services.

In other program areas as well, Boeing is well able to serve current and future military aircraft requirements. We have the leading attack helicopter in the Apache, we're developing the Comanche armed reconnaissance helicopter, and we believe our V-22 tiltrotor represents the future of rotorcraft in the 21st century. With the C-17 as a relatively young production program that is performing superbly in the field, we hold both the present and the future of large military transports.

Boeing's Airlift and Tanker Programs – spearheaded by the C-17 Globemaster III – won the 1998 Malcolm Baldrige National Quality Award for excellence in manufacturing. With that (and the earlier award of the Collier Trophy), the C-17 has become a shining example of how to take cost out of an existing program – and improve quality and performance at the same time.

We have taken steps to solidify our small but profitable weapons business and are moving to consolidate facilities, thereby reducing costs, gaining efficiencies and eliminating duplication. Over the past year, we introduced a more versatile version of the Harpoon anti-ship missile; advanced the flight testing of the Brimstone anti-tank system for the United Kingdom and the upgraded Standoff Land Attack Missile for the U.S. Navy; and delivered the first production Joint Direct Attack Munition to U.S. Forces.

In 1998, we created a major new business dedicated to Aerospace Support. It proved an immediate success – winning more than $5 billion in contracts for military aircraft maintenance and modification, logistics support and training systems. This growth business is certainly one that will both draw upon and strengthen the first of our three core competencies – detailed customer knowledge and support.

Commercial Airplanes

Notwithstanding recent difficulties, Boeing remains the world's premier builder of commercial airplanes. About 10,000 out of the world fleet of 12,000 jetliners are Boeing products. The Boeing family of jetliners is the most extensive in the world, and we are the clear leader in our ability to service our products anywhere in the world. We have momentum in this business. Lots of it.

We know we can expect long-term growth in this business. Our big challenge is our profitability over the next couple of years.

As 1998 began, the problems confronting us were largely of our own making. In the midst of a boom market, we tried to do too much too soon in terms of raising production rates and coping with the variability involved in building several new models at one time and in limited quantities for new customers.

Toward the end of the year, we confronted another kind of problem, which was serious deterioration in the order book due to the Asian economic crisis. This hit us especially hard on the 747 program – our largest, and one of our most profitable airplanes. As a result, we are prepared to reduce production of the 747 from 5 per month at present to 2 per month in late 1999 and subsequently to 1 per month in early 2000, if market conditions fail to improve.

Just as we learned to improve productivity and profitability in the face of severe Department of Defense and NASA cutbacks, we must perform a similar feat in our commercial airplane business. That process is well advanced.

We got largely back on track in 1998 and delivered a record 559 jetliners, up from 374 in 1997 and 269 in 1996. In the process, we greatly reduced out-of-sequence work and parts shortages. We are now targeting major cost savings that are possible through all the methods described in this letter.

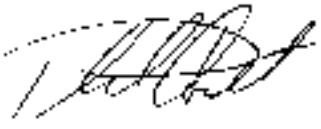
Using digital tools, for instance, we are re-designing major sections of the 747 – so it becomes a better airplane that we can build faster and cheaper. However, as we have found in other areas of our business (with the C-17 as a classic example), there is no single cookie-cutter approach that works in re-engineering a program to inject lean production methods. Success depends upon people working together in enthused and empowered teams.

With new leadership in this business, the creation of such teams has become a top priority. So, too, has the achievement of real business success. This business is now focused on achieving a higher level of profitability as opposed to trying to defend or increase market share. Even so, with the notable exception of Asia, 1998 was another good year in terms of new bookings from the world's airlines. Moreover, the Boeing Business Jet, introduced in 1997, has been a great success – with 46 orders to date for this highly-customized derivative of the Next-Generation 737.

We deeply regret the problems caused by late deliveries to a number of our customers. As part of the reorganization of our commercial airplane business, we have elevated Customer Services to act as the customer's advocate and to ensure a high level of responsiveness. In addition, we have created a new business entity, Boeing Airplane Services, dedicated to major airplane modification and engineering services.

To Our Teammates, Customers and Shareholders:

We are not going to stop dreaming great dreams – or giving people the opportunity to share in the creation of great products. But neither are we going to forget this is a business. Our job is to be the best in the world at satisfying the aerospace customer. And our single overriding goal is to achieve a level of profitability that will put us up among the leaders in industry in annual returns to shareholders.



Philip M. Condit
Chairman and Chief Executive Officer

Harry C. Stonecipher
President and Chief Operating Officer

February 22, 1999

Executive Council

James F. Albaugh
Senior Vice President – President, Boeing Space and Communications Group

Theodore J. Collins
Senior Vice President and General Counsel

James B. Dagnon
Senior Vice President – People

Christopher W. Hansen
Senior Vice President – Washington, D.C., Operations

Deborah C. Hopkins
Senior Vice President and Chief Financial Officer

James C. Johnson
Vice President, Corporate Secretary and Assistant General Counsel

Alan R. Mulally
Senior Vice President – President, Boeing Commercial Airplanes Group

James F. Palmer
Senior Vice President – President, Boeing Shared Services Group

Michael M. Sears
Senior Vice President – President, Boeing Military Aircraft and Missile Systems Group

John D. Warner
Senior Vice President and Chief Administrative Officer

Not pictured:
Philip M. Condit, Chairman and Chief Executive Officer
Harry C. Stonecipher, President and Chief Operating Officer

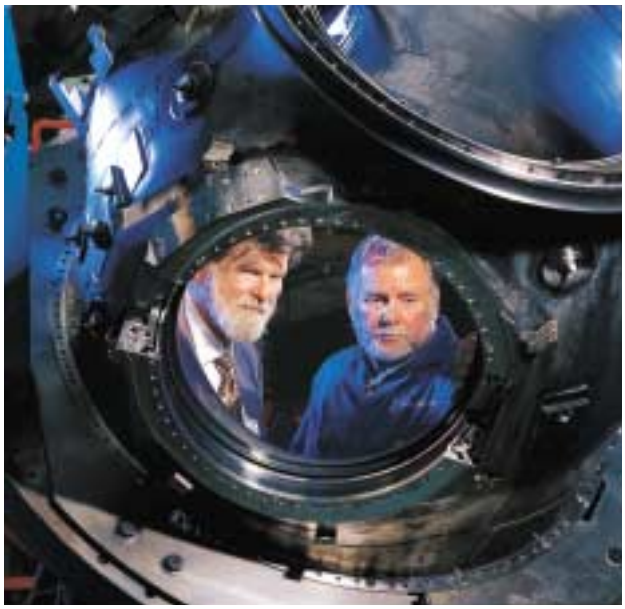
Our vision:

People working together as one global company for aerospace leadership.

Operations review:

A look at Boeing people and programs around the world.

Joint Strike Fighter – An International Team Effort



Boeing on-site manager Christopher Carlin (left) and Rolls-Royce engineer Alan Nash inspect progress on the engine lift module that will provide short takeoff and vertical landing capability for JSF.

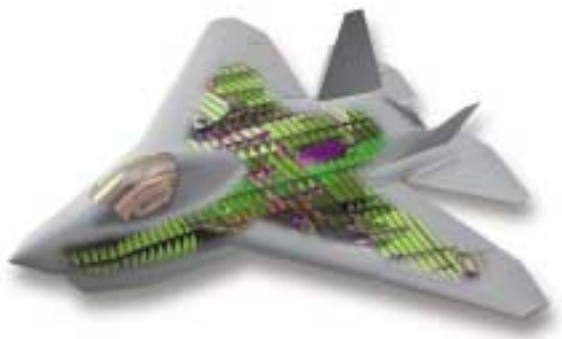
Tom Kerns, part of the Boeing JSF team in St. Louis, applies composite material for fuselage tooling.

Bristol, United Kingdom – Building the Joint Strike Fighter (JSF) is a team effort that joins Boeing people at numerous locations in the United States, as well as supplier partnerships in Europe. In the United Kingdom, Boeing is working with Rolls-Royce to develop the vertical lift propulsion system – an area of expertise Rolls-Royce acquired in designing and building the direct-lift propulsion system for the Harrier AV-8B.

The JSF program is global by design. The U.S. Department of Defense has created opportunities for allied governments to participate in the JSF program. The United Kingdom, Denmark, Norway, the Netherlands and Canada are active partners. Such cooperative strategies are a critical component of the U.S. government's plans for making the JSF an affordable replacement for U.S. Air Force, Navy and Marine Corps aircraft, as well as for those of allied air forces.

Boeing is competing to build the JSF under a four-year contract awarded in late 1996. We are building two JSF demonstrator aircraft, one that can operate from conventional airfields as well as aircraft carriers, and a second aircraft that will demonstrate the short-takeoff/vertical landing capability required by the U.S. Marine Corps and the Royal Navy.

We are also demonstrating critical technologies, processes and affordability initiatives that support the objective of producing a next-generation strike fighter that is cost-efficient to produce and operate. Advanced design tools are helping us cut design times and costs by 30 to 40 percent, and are expected to reduce production cycle times by 25 percent. A competition winner will be selected in 2001, with actual fighter deployment set for 2008.



Servicing the Boeing Shuttle Fleet

Palmdale, California – In September, Space Shuttle Atlantis departed Palmdale aboard a Boeing 747, following a 10-month tune-up at our Assembly, Integration, and Test Center. In addition to scheduled maintenance, major orbiter upgrades were incorporated to improve Atlantis' safety and mission performance while reducing costs and processing cycle time. Among these upgrades were glass-panel cockpit displays and improvements to support the shuttle fleet's planned 36 missions to assemble the International Space Station over the next six years. Boeing is under contract to the United Space Alliance for shuttle orbiter production, modifications and operations, and for overall shuttle system and payload integration services, with additional responsibility for launch and mission support.

767-400 Offers Improved Operating Economics

The Boeing 767-400 Extended Range (ER) airplane is the latest addition to the 767 family. Design of the 767-400ER, a stretched version of the 767-300ER, began in January 1997. The rollout of the first aircraft is planned for August 1999, with the first flight in October. The 767-400ER will add 21 feet to the length of the 767-300 airframe and will offer about 15 percent more seats – 245 in a three class configuration and 304 in a two class configuration. The added seats will reduce operating costs relative to the 767-300ER, which already offers airlines the lowest operating costs in its class. The new derivative will fly all U.S. domestic routes, and will serve international markets such as Los Angeles – London, New York – Santiago, Chile, and Seattle – Osaka, Japan.

In addition to improved operating economics, the 767-400ER incorporates design features proposed by airline customers to make the airplane even more appealing. The most significant change from the passenger perspective is an all-new interior. The 767-400ER interior architecture, with newly sculpted side walls, ceilings and overhead stow bins, creates a feeling of spaciousness similar to the 777. The bins provide more usable stowage volume than existing 767s. The airplane retains features that have earned the 767 passenger ratings as one of the most preferred airplanes in every class of service. For example, independent research has shown the seven-abreast seating layout is popular because 87 percent of the seats are next to a window or aisle.

The 767-400ER offers pilots an improved flight deck that incorporates six flat-panel displays, with a layout similar to that used on the 777, Next-Generation 737 and 747-400. The 767-400ER will have the same pilot-type rating as the current 767 fleet.

Delivery of the first 767-400ER to launch customer Delta Air Lines is scheduled for May 2000.

For more than two decades, the Boeing Airborne Warning and Control System (AWACS) has been the world standard for airborne early warning systems. A military version of the Boeing 767 is the latest AWACS aircraft.

HAMAMATSU, JAPAN – In March, Boeing delivered the first two 767 AWACS to the government of Japan – with two more aircraft delivered in January 1999. On-site Boeing support staff, as well as advisors from the U.S. Air Force, are working with pilots and crews of the Japanese Self Defense Force to ensure a smooth transition of the AWACS aircraft into service. The 767 AWACS fills the need for both airborne surveillance and command, control and communications functions for tactical and air defense forces. The Boeing AWACS offers countries self-defense capability well beyond the range of current ground-based systems. Additionally, its maritime surveillance ability allows long-range monitoring of ships in regional and territorial waters.

First 767 AWACS Delivered to Japan

Delta Rockets Offer Cost-Efficiency

Pueblo, Colorado – Centrally located between major launch complexes at Cape Canaveral in Florida and Vandenberg Air Force Base in California, our Pueblo plant is the site where Delta II and III rocket components are assembled. Pictured above are two members of the Delta II team assembling a payload fairing for a NASA scientific mission scheduled for launch in early 1999. The Delta II medium-capacity rocket is the world's most reliable expendable launch vehicle.

In 1998, there were 12 successful Delta II launches carrying satellite payloads for NASA, U.S. military, and commercial customers. The Delta III intermediate-class rocket, which has more than twice the lifting power of the Delta II, failed in its inaugural launch because of problems with the control system, but is scheduled to fly again in early 1999 (for more on launch vehicles, see the EELV story on page 22).

Super Hornet Nears Completion of Flight Testing

Naval Air Station, Patuxent River, Maryland – The U.S. Navy's newest strike fighter, the Boeing F/A-18E/F Super Hornet, neared completion of its flight test and development phases here in 1998, while the Boeing fighter factory in St. Louis delivered the first production aircraft more than one month ahead of schedule. Seven developmental Super Hornets flew more than 1,800 hours in 1998, bringing the total number of flight-test hours to 4,000 over three years. Developmental testing is intended to help identify and correct any deficiencies before production versions of the Super Hornet begin operational evaluation by Navy fleet pilots in May 1999. The first Super Hornet fleet deployment is scheduled in early 2002. The Navy plans to buy at least 548 F/A-18E/Fs through 2010.

The Super Hornet is the first tactical aircraft designed to meet a post-Cold War defense need for weapons that balance capability improvements against cost limitations. Thanks to careful planning and management, the F/A-18E/F program has remained on schedule and on budget since its inception in 1991. Integrated teams – with members from the Navy, Boeing and a select corps of suppliers – have applied "lean" principles to design and manufacture an aircraft that will require significantly reduced maintenance and support throughout its lifecycle.

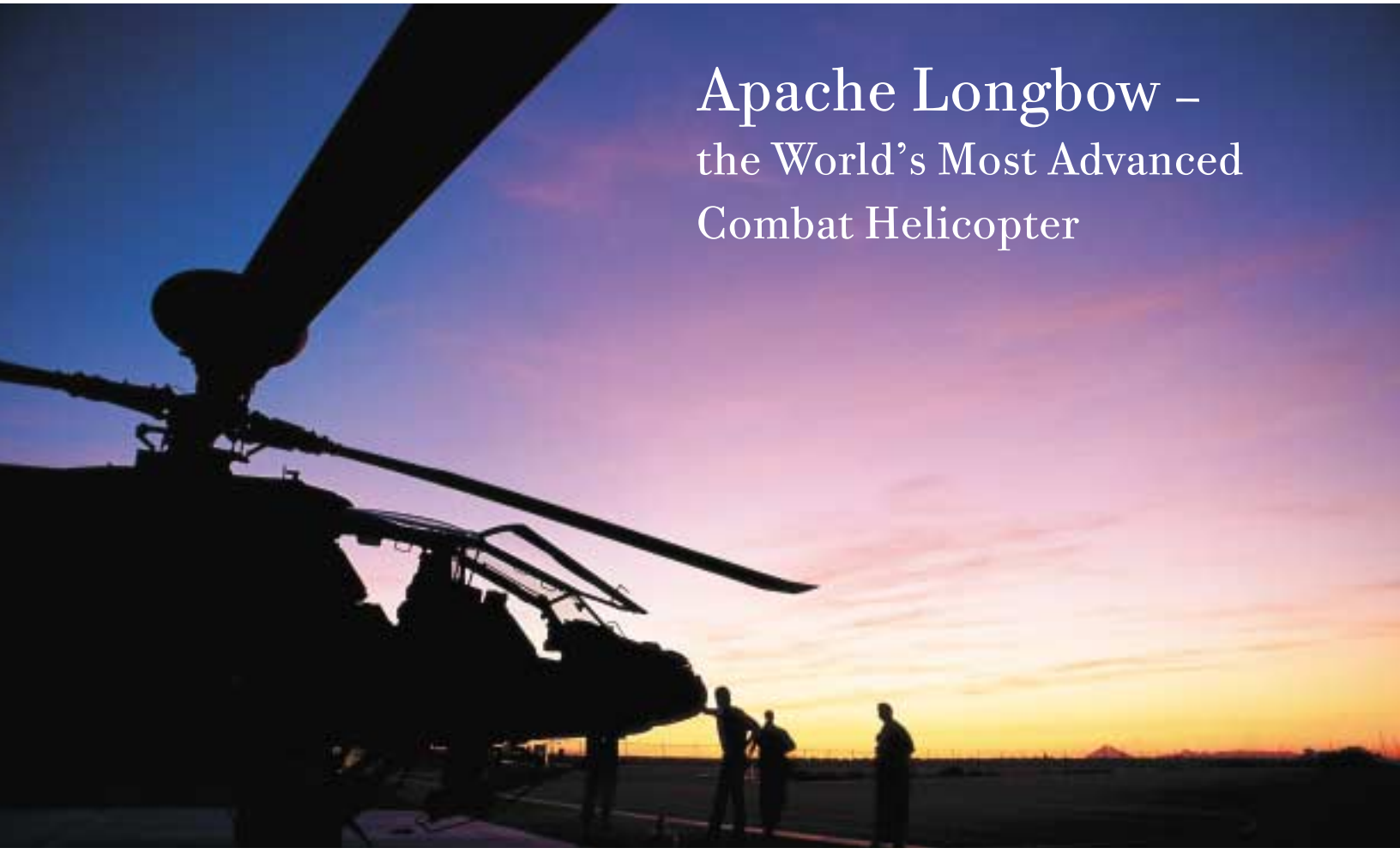
F/A-18 Upgrade in Australia

Newcastle, Australia – In September, the Commonwealth of Australia awarded Boeing a contract to purchase upgrade hardware for the Royal Australian Air Force's (RAAF) fleet of F/A-18 Hornets. A follow-on contract for installation is expected in the first quarter of 1999. The upgrade will equip the fighters with improved communication and navigation

capabilities, including new mission computers, a secure radio system, global positioning system and improved technology for identifying friendly or enemy aircraft. This will be the first significant upgrade to the aircraft since the A (single-seat) and B (two-seat) models were delivered between 1985 and 1991.

F/A-18E/F
Super Hornet

Mildred Blevins is part of a team that produces wire harnesses and electrical assemblies for a wide range of Boeing products in Mesa. Reducing the number of wire types from 854 to 150 has made it possible to establish much more cost-efficient processes.



Apache Longbow – the World's Most Advanced Combat Helicopter

Mesa, Arizona – Customer demand for the AH-64D Apache Longbow has strengthened helicopter production here in Mesa. The AH-64D is the next generation of the combat-proven AH-64A Apache, which is in service with defense forces around the world. In 1998, Boeing delivered 42 Apache Longbows to the U.S. Army, with a contract to produce 190 more helicopters through 2002. Also in 1998, deliveries began to the Royal Netherlands Air Force and the United Kingdom.

Customer Service
When and Where It's Needed

Boeing has long set the industry standard for providing service and support to airline customers around the world. With the 1997 merger with McDonnell Douglas, the task is even larger, with some 10,000 airplanes in service, ranging from the DC-3 to the 747-400. This in-service fleet, which now accounts for about 78 percent of all airline seats, is expected to grow to 16,000 by 2016.

Boeing offers an unmatched range of services to 700 airline customers and 300 aircraft servicing firms. We provide technical support 24 hours a day, seven days a week; ship emergency spare parts in two hours, and routine spare parts in 24 hours; and deploy leading-edge information technology to give customers access to the data they need, when they need it. The worldwide Boeing spares inventory totals nearly 500,000 different types of parts. Our customer services team is focusing on two primary objectives: raising customer satisfaction; and determining new services that customers want, leading to new business opportunities.

Boeing field service representative George Shields, in Zhongzhou, China, is one of more than 300 airline customer support people in 63 nations.

Employee John Ball monitors the water quality of the innovative water recycling system at the Boeing industrial waste water treatment facility in Wichita.

Waste Treatment Cleans Wichita Environment

Wichita, Kansas – About two million gallons of industrial waste water are treated and reused each day at the Boeing plant here. In 1998, the waste water treatment process was further enhanced to make it a "closed-loop" system, replacing the old "treat-and-discharge" system.

As a leader in aerospace environmental technology, the company continues to pioneer materials and processes that lead to a cleaner, healthier environment. For example, new paints and solvents are providing customers better performance, with less environmental impact. A new paint for the Boeing C-17 cargo aircraft dramatically increases durability, while reducing weight.

We are working to sustain our environment in many other ways, including energy-efficient facility design, chemical reduction, chemical management programs, materials reduction, and recycling. We currently recycle more than 100 commodities. In many of our larger plants, we recycle nearly 60 percent of the waste stream.

In 1998, we joined the Business Environmental Leadership council of the non-profit Pew Center on Global Climate Change. The company also won a special recognition award from the U.S. Environmental Protection Agency's Climate Wise program for efforts to reduce gasses that may lead to the "greenhouse" effect in the Earth's atmosphere.

Singapore Spares Center Expands Asia Service

Singapore – Located near Changi Airport, the Singapore Spares Distribution Center stocks about 31,000 different types of parts in support of our commercial airplane customers throughout Southeast Asia. It is one of seven spares distribution centers at key locations worldwide, including the main center in Seattle and a center in Dubai, which opened in 1998 in support of customers in the Middle East, Africa, the Indian subcontinent and the southern portion of the Commonwealth of Independent States. An eighth facility will be opening soon in Amsterdam.

The regional centers such as the Singapore facility enable us to move parts inventory closer to customers and reduce delivery times. The goal is to help airlines reduce their own costly "just-in-case" inventories by relying more on the readily available Boeing stock.

Computerized ordering and inventory systems allow distribution centers in Singapore and six other locations to quickly process about 1.7 million shipments of spare parts each year.

New Plant to Support Delta IV

Boeing facilities manager Mark Schwartztrauber (left) confers with the contractor on plans for the new plant in Decatur.

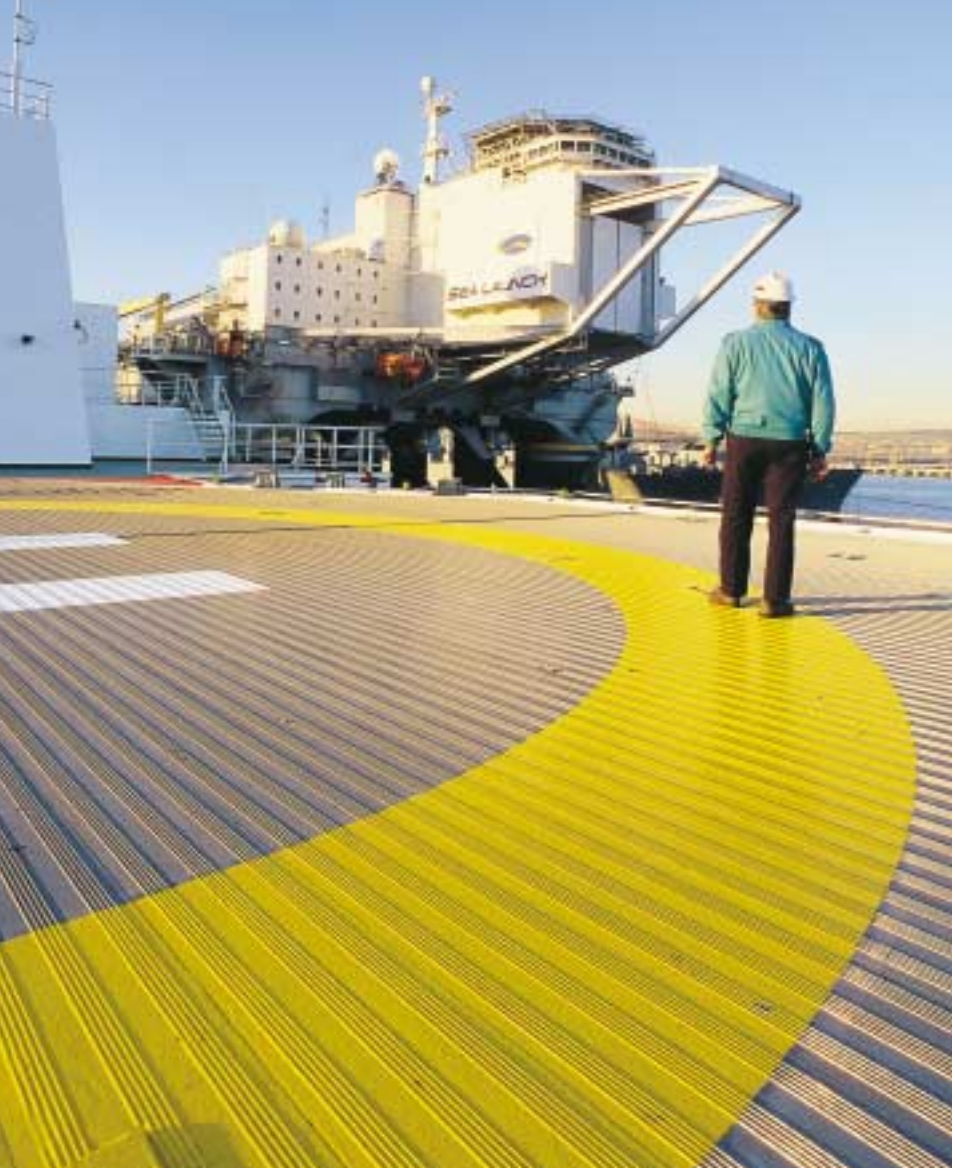
Decatur, Alabama – Boeing is building a new 1.5 million-square-foot facility in Decatur for low-cost production of the booster core, a major component of the Delta IV rocket family. Start-up production is scheduled for February 1999. All Delta IV vehicles use a common booster core powered by the Boeing-built Rocketdyne RS-68 engine. The liquid hydrogen and liquid oxygen-burning, 650,000-pound thrust engine is 30 percent more efficient than conventional liquid oxygen/kerosene engines, and is environmentally friendly.

In October, the U.S. Air Force procured 19 Boeing Delta IV launches and continued development of the Evolved Expendable Launch Vehicle (EELV) program valued at $1.88 billion. EELV is a top priority Air Force program to develop a new generation of launch vehicles that will reduce the cost of boosting payloads into orbit. This initial launch services contract covers small, medium and heavy payload-class launches from 2002 to 2006. First launch of the Boeing Delta IV is scheduled for 2001.

New 757-300 Delivers More Value to Customers

Renton, Washington – The 757-300, which made its inaugural flight in August, is the first new member of the 757 family to fly in 16 years. During its two and a half hour flight, Boeing test pilots Leon Roberts and Jerry Whites conducted a series of tests on the airplane's systems and structures, including testing the wing flaps, main landing gear and flight controls. The first flight was the culmination of nearly two years of work for the Boeing team that planned, designed and built the airplane – after the program was launched with an order from Condor, a German charter carrier.

The 757-300, a stretched version of the 757-200, is the world's largest single-aisle twinjet, and a market-driven addition to the popular mid-sized Boeing 757/767 family. The 757-300 is 23 feet longer than the 757-200, and can carry 20 percent more passengers – this translates into 10 percent lower seat-mile costs for our airline customers. The 757-300 retains the simplicity and reliability of the -200 and shares a common flight crew rating with the 757/767 family. The first -300 delivery is scheduled in early 1999.



The Sea Launch platform, accompanied by a command ship, will launch satellites from Pacific sites near the equator.

Sea Launch Prepares for Action

Long Beach, California – In October, the Sea Launch platform Odyssey arrived at its home port in Long Beach, after an 18,000-mile journey that began in Vyborg, Russia, and took it to Norway, Gibralter, Egypt (Suez Canal) and Singapore. Odyssey is a 20-story-high, 436-foot-long, self-propelled vessel that will serve as the launch platform for Sea Launch, of which Boeing is a 40 percent partner. Boeing will produce the payload fairings and provide spacecraft integration and mission operations.

The Sea Launch Company is a joint venture of Boeing, RSC Energia of Moscow, KB Yuzhnoye/PO Yuzhmash of Ukraine, and Kvaerner Maritime of Norway. Sea Launch uses a Ukranian- and Russian-built rocket, the Norwegian-built Odyssey launch platform, and a 656-foot-long command ship, the Sea Launch Commander.

From Long Beach, the Odyssey and Sea Launch Commander, with a crew of 240, will sail regularly to international waters near the equator to launch satellites. In the commercial satellite launch business – where economics is vital – a launch site at or close to the equator translates into the potential for fuel savings and heavier payloads. In addition, this location eliminates the need for costly upper-stage maneuvering to achieve a geostationary orbit. Sea Launch will demonstrate the capabilities of its ocean-based commercial launch system with its first launch in March 1999. The joint venture currently has 18 firm launch contracts through the year 2004.

Boeing Unit Wins Baldrige Award for Quality

Long Beach, California – In November, Boeing Airlift and Tanker Programs was named a 1998 Malcolm Baldrige National Quality Award winner for manufacturing by the Department of Commerce. Airlift and Tanker Programs builds the C-17 for the U.S. Air Force and is also responsible for aerial tanker aircraft and other Air Force and Navy airlift programs.

Congress established the Baldrige Award in 1987 to enhance U.S. competitiveness by promoting quality awareness. Airlift and Tanker Programs employs more than 8,000 people in Long Beach, and another 1,000 in locations around the United States. In congratulating the three winners of this year's Baldrige Award, Commerce Secretary William Daley said, "...With a focus on excellence in everything they do, these agile and efficient companies are delighting customers, investing workers with greater power and responsibilities, and improving their bottom line. They can be counted among America's leading-edge corporations."

New Aerospace Support Center

San Antonio, Texas – Operations at the Boeing Aerospace Support Center at Kelly Air Force Base got off to a good start in September when the first aircraft that arrived for modification work, a C-17 Globemaster III, was completed and delivered back to the Air Force ahead of schedule. The Boeing Aerospace Support Center was established in 1998 to create a world-class maintenance center for large military aircraft. During the year, Boeing won a number of important contracts from the Air Force to provide maintenance and modification work on C-17 transports and KC-10 and KC-135 tankers. The opportunities for new defense business in the aerospace support arena are very encouraging.

International Space Station

In December, Space Shuttle Endeavor completed its historic flight to start assembly of the International Space Station. The Endeavor carried the Boeing-built Unity module into orbit (shown here emerging from the shuttle's cargo bay), which the crew attached to the Russian-built Zarya power unit launched two weeks earlier. Together, the two modules measure about 77 feet from end to end and have a combined mass of 70,000 pounds. They are the first of 100 major components to be united in space over the next five years. Transporting the parts and pieces of the station into orbit will require more than 40 space flights on three different types of launch vehicles. This unprecedented, complex orchestration of space flights will include the Space Shuttle, and Russian Proton and Soyuz rockets.

Boeing is prime contractor for the International Space Station, leading the U.S. industry team to build the largest, most complex structure ever placed into orbit. A joint project of the United States and 15 other nations, the station will be a world-class laboratory that will test everything from metals to medicine to make scientific advances that will benefit mankind. Almost a dozen interlocking modules, housing research laboratories, living quarters and support equipment, are planned to provide 46,000 cubic feet of pressurized space, equal to the interior volume of two Boeing 747s. When completed in 2004, the International Space Station will weigh almost a million pounds and measure the length of a football field.

Renton, Washington – The assembly line for Next-Generation 737 upper wing panels literally moves about six inches a minute, ensuring a smooth, continuous production flow and enabling employees to gauge their progress at a glance. This moving production line, one of several moving lines operating in the company today, was developed in 1997 using principles of lean manufacturing. Since implementing the Next-Generation 737 upper wing panel moving line, employees in this area have improved their cycle time by 73 percent and productivity by 53 percent.

We are using lean-manufacturing techniques throughout the company to reduce internal costs and improve our production systems. Lean manufacturing relies on the experts – people on the factory floors who actually do the physical work – to change their work areas and processes to maximize efficiency, improve quality and safety, and eliminate unnecessary motion and inventory.

Since 1997, Commercial Airplanes employees have completed more than 1,600 lean manufacturing improvement workshops. These workshops are aimed at giving employees in individual work areas the techniques and opportunity to reduce their cycle time, defects, parts travel distances, and work-in-process.

Lean Manufacturing Helps Reduce Internal Costs

Employees John Mills (left) and Ken Heyer assemble an upper wing panel for a Next-Generation 737 on a moving production line.

Corporate Citizenship

Boeing computer specialist Jeff Sykes, a volunteer for the past 10 years at Children's Hospital in Seattle – and himself a quadriplegic – teaches the finer points of chess to patient Dean Moe. Jeff was one of four Boeing employees who won the company's highest award for community service in 1998.

Our company and employees are committed to improving the quality of life in our local communities. In 1998, company and employee contributions of cash and in-kind services exceeded $94.7 million to support a wide range of programs in the areas of education, health and human services, civic and environmental initiatives, and the arts. About half of those gifts – $40.9 million – came from our exceptionally generous employees and retirees, largely through the Employees Community Fund of The Boeing Company, the largest employee-owned charitable organization in the world. Our employees and retirees also gave generously of their own time, volunteering hundreds of thousands of hours to help worthwhile projects in communities across the nation.

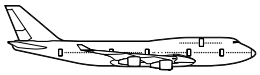
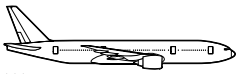
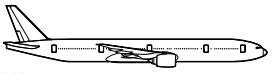
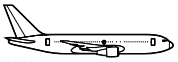
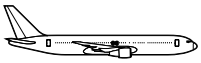
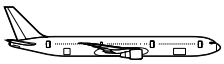
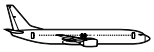
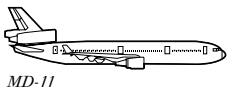
Boeing contributed more than $53.8 million of cash and in-kind services, the largest portion of which went to support education – which includes support for colleges, universities and K-12 programs. We help support education reform at the local, national and state level through corporate and individual leadership and monetary contributions. Boeing endorses the view that all students should be given the opportunity to reach their full potential, and that education must be performance based, with clear learning goals at all levels. Boeing maintains strong relationships with four-year colleges and universities, as well as community and technical colleges.

The second largest recipient of Boeing charitable contributions are health and human service organizations. We support a wide range of community programs for both young people and adults that teach leadership and life skills, and promote economic and emotional self-sufficiency.

Boeing leads the aerospace industry with programs to ensure that small businesses, including those owned by minorities and women, have the maximum opportunity to compete for contracts. Boeing subcontract awards to small businesses totaled $6.4 billion in 1998. Of that, minority-owned and women-owned small businesses were awarded $856 and $528 million respectively.

Boeing Commercial Airplanes Group

Alan Mulally, president / Renton, Washington

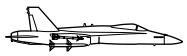
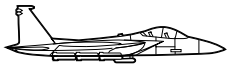
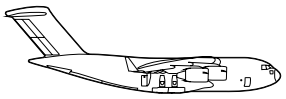
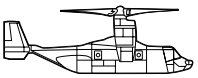
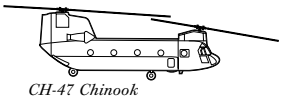
 *747-400*	The 747-400 seats 416 to 568 passengers and has a range of 8,350 miles. With its huge capacity, long range and fuel efficiency, the 747 offers the lowest operating cost per seat of any twin-aisle commercial jetliner. The 747-400 is available in an all-cargo freighter version as well as a combi model for passengers and cargo. Orders: 1,291* Deliveries: 1,189
 *777-200*  *777-300*	The 777-200, which seats 305 to 440 passengers depending on configuration, has a range of up to 5,925 miles. The 777-200ER (extended range) was first delivered in February 1997 and can fly the same number of passengers up to 8,861 miles. The 777-300, which rolled out of the factory in August 1997, with deliveries beginning in 1998, is about 33 feet longer than the -200 and can carry from 328 to 550 passengers, depending on seating configuration, with a range of 6,790 miles. Orders: 429* Deliveries: 178
 *767-200*  *767-300*  *767-400*	The 767-200 can fly 181 passengers more than 7,600 miles in its extended-range version. The 767-300, also offered in an extended-range version, offers 20 percent more passenger seating. A freighter version of the 767-300 is available. The newest member of the family, the extended-range 767-400ER is scheduled to enter service in 2000 and will carry from 245 to 375 passengers more than 6,750 miles. Orders: 863* Deliveries: 729
 *757-200*  *757-300*	Seating from 180 to 230 passengers, depending on configuration, the 757-200 is ideal for high-demand, short- to medium-range operations and can fly nonstop intercontinental routes. It is also available in a freighter version. The 757-300, scheduled for first delivery in 1999, has approximately 20 percent more seating and will have about 10 percent lower seat-mile operating costs than the -200, which already has the lowest seat-mile operating cost in its market segment. Orders: 966* Deliveries: 836
 *737-500*  *737-600*  *737-300*  *737-700*  *737-400*  *737-800*  *737-900*	The Boeing 737 is the best-selling commercial jetliner of all time. The Next-Generation 737-600/-700/-800/-900, the most recent additions to the family, have outsold all other airplanes in their market segment. The 737 is the only airplane family to span the entire 100- to 189-seat market. The family also includes the Boeing Business Jet derivative of the 737-700. Orders: 4,234* Deliveries: 3,256
 *717-200*	The newest member of the Boeing commercial jet airplane family was introduced in October 1995 as the McDonnell Douglas MD-95. The twinjet, renamed the 717-200 in January 1998, will meet the growing need worldwide for a 100-seat regional jet. First delivery is scheduled for mid-1999. Orders: 115* Deliveries: 0
 *MD-11*	Boeing now produces the MD-11 in both freighter and passenger versions. The MD-11 Freighter fills the niche between the 767 Freighter and 747 Freighter. The MD-11 Freighter holds more than 21,000 cubic feet of cargo, and the passenger version seats from 233 to 410, depending on configuration. MD-11 production will be phased out with the delivery of orders now on hand, with the last delivery scheduled for March 2001. Orders: 200* Deliveries: 186
 *MD-80*	The MD-80 family includes five models – the MD-81, the MD-82, the MD-83, the MD-88 and the smaller MD-87 – with seating for 139 to 163 passengers. Boeing will continue to produce the MD-80 until late 1999, when current production commitments end. Orders: 1,191* Deliveries: 1,165
 *MD-90*	The MD-90 twinjet is a mid-sized airliner that seats up to 172 passengers. The MD-90 is the quietest large commercial jetliner, and its fuel-efficient engines are designed for reduced exhaust emissions. Boeing will continue to produce the MD-90 twinjet until early 2000, when current production commitments end. Orders: 134* Deliveries: 98

*Orders and deliveries as of December 31, 1998. Order numbers represent those publicly announced by customers and do not include options. Announced orders are not all represented in contractual backlog as included in the Financial Report.

Boeing Military Aircraft and Missile Systems Group

Mike Sears, president / St. Louis, Missouri

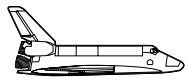
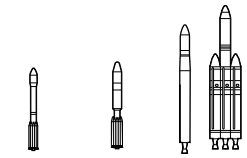
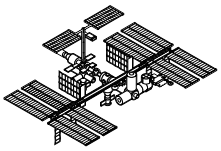
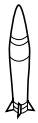
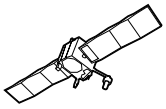
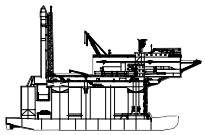
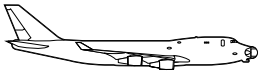
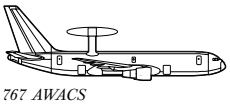
Selected programs

 *F/A-18C/D Hornet*  *F/A-18E/F Super Hornet*	The F/A-18 Hornet strike fighter, flown by the U.S. Navy, Marine Corps and seven other nations, was the first tactical aircraft designed to perform both air-to-air and air-to-ground missions. The F/A-18E/F Super Hornet, the nation's newest fighter and attack aircraft, offers longer range, more payload-carrying ability and more powerful engines, as well as many systems upgrades. The Super Hornet is in low-rate initial production, with delivery of the first production aircraft in December 1998.
 *JSF*	Boeing was awarded one of two $660 million contracts in 1996 from the Department of Defense to build and flight test two concept demonstrator variants of the Joint Strike Fighter. As currently structured, selection of a single contractor to build as many as 3,000 of the multi-service fighters will take place early in the next century.
 *F-22 Raptor*	Boeing and Lockheed Martin are developing the U.S. Air Force's next-generation air dominance fighter. The F-22 program is in the engineering and manufacturing development phase, calling for the production of nine flight-test and two ground-test aircraft. First flight took place on September 7, 1997, and flight testing is under way.
 *F-15E Eagle*	The backbone of the U.S. Air Force fleet, the F-15E Eagle is the world's premier fighter-bomber. The versatile dual-role aircraft carries a variety of air-to-air and air-to-ground weapons. It can operate round the clock and in any weather. Since entering operational service in 1974, the F-15 has attained a perfect air combat record of 96.5 victories and zero losses. Three other nations fly F-15s.
 *AV-8B Harrier II Plus*	The newest upgraded variant of the AV-8 Harrier family, the Harrier II Plus, adds the APG-65 radar system to the aircraft's proven vertical and short fixed-wing takeoff and landing capabilities. A Boeing, British Aerospace, and Rolls-Royce team produces the AV-8B, and the Harrier II Plus was developed through a three-nation agreement among the United States, Spain and Italy.
 *T-45 Goshawk*	The T-45 Goshawk aircraft is the key component of the T-45 Training System, the first totally integrated training system developed for and used by the U.S. Navy. The system also includes advanced flight simulators, a computer-assisted instructional program, a computerized training integration system and a contractor logistics support package.
 *C-17 Globemaster III*	The C-17 Globemaster III is the most advanced, versatile airlifter ever made, capable of flying long distances, carrying more than 170,000 pounds of payload and landing on short, austere runways close to front lines. Since entering service in 1995, the C-17 has become the U.S. Air Force's premier airlifter, supporting U.S. contingency, peacekeeping and humanitarian relief efforts around the world.
 *V-22 Osprey*	In partnership with Bell Helicopter Textron, Boeing is developing the V-22 Osprey tiltrotor aircraft. Low-rate initial production and flight testing have begun. Initial deliveries of 360 aircraft to the U.S. Marine Corps begin in 1999. U.S. Special Operations Command has 50 CV-22s on order.
 *CH-47 Chinook*	The CH-47D Chinook is a twin-turbine, tandem-rotor, heavy-lift transport helicopter. Its high speed and large payload give the CH-47D the lowest transport cost per mile of any U.S. Army helicopter. A CH-47SD variant is in production. Military customers in 15 nations fly the CH-47 Chinook.
 *RAH-66 Comanche*	A Boeing-Sikorsky team is developing the U.S. Army's 21st-century armed reconnaissance helicopter. One Comanche prototype is currently in flight test; a second helicopter entered the test program in 1999.
 *AH-64D Apache Longbow*	The AH-64D Apache Longbow, an advanced version of the battle-proven AH-64A Apache, is the most lethal, survivable, deployable and maintainable multimission combat helicopter in the world. Boeing has a multi-year contract to remanufacture 232 AH-64As into AH-64Ds. This new version of the Apache has also been ordered by the Netherlands and the United Kingdom.
 *SLAM ER* *JDAM*	The Standoff Land Attack Missile (SLAM ER) is the U.S. Navy's newest air-launched precision-guided standoff missile system. The SLAM ER successfully completed its initial flight testing in June 1998. The Joint Direct Attack Munition, or JDAM, upgrade guidance kit converts free-falling bombs into "smart munitions" capable of seeking targets.

Boeing Space and Communications Group

Jim Albaugh, president / Seal Beach, California

Selected programs

 *Space Shuttle*	As a partner in United Space Alliance, a joint venture with Lockheed Martin, Boeing provides overall system integration for the shuttle, as well as operations support, payload integration, engineering support and orbiter modifications. Boeing is also developing upgrades that will enable the shuttle fleet to fly through 2012. The Space Shuttle utilizes the world's only reusable liquid fuel rocket engines, designed and built by Boeing.
 *Delta II Delta III Delta IV*	In service since the 1960s, the Delta family of launch vehicles continues to evolve to meet the need for higher payloads and lower cost access to space. More than 257 Delta rockets have been launched since 1960. During the last decade, the Delta II has logged a 97 percent success rate. Larger, more capable Delta III and Delta IV rockets will begin operations in 1999 and 2001 respectively.
 *International Space Station*	Boeing is prime contractor to NASA for the design, development and on-orbit performance of the U.S. components of the 16-nation International Space Station. The first components are in orbit. In November and December 1998, the first elements of the International Space Station were launched and joined in orbit. By early 2000 the station will begin continuous operations with a crew of three, growing to a crew capability of six at completion in 2004. Station assembly will require more than 40 space launches.
 *NMD interceptor*	Boeing is Lead System Integrator for the National Missile Defense (NMD) program, which is intended to defend the United States from a limited intercontinental ballistic missile attack. The three-year, $1.5 billion effort calls for the company to develop and integrate all NMD elements. Current plans include developing and demonstrating the system to a point at which a decision to deploy can be made in 2000.
 *Global Positioning System*	Boeing has built 40 Navstar Global Positioning System (GPS) spacecraft. Currently, a team led by Boeing has a U.S. Air Force contract to design, develop and produce the next-generation GPS satellites – the 33 satellite Block IIF. Boeing also is an equity partner in Teledesic and will be the system integrator responsible for design, development, construction and deployment of the new Ellipso global mobile satellite communication system.
 *Sea Launch*	Boeing is part of an international consortium, including firms from Russia, Ukraine and Norway, that will begin commercial satellite launches from a sea-based mobile platform in 1999. Home port for Sea Launch is Long Beach, California.
 *Airborne Laser*	As Team ABL, Boeing, TRW and Lockheed Martin have a $1.1 billion contract to conduct the program definition and risk reduction phase of the Airborne Laser program. This U.S. Air Force effort is intended to explore the feasibility of an airborne laser system for defense against tactical theater ballistic missiles.
 *767 AWACS*	A modified Boeing 767 is the newest Airborne Warning and Control System (AWACS) platform, following the successful performance of the 707 in that role. Japan has received four 767 AWACS. With a 360-degree view of an area, AWACS radar detects targets more than 200 miles away.

Financial Table of Contents

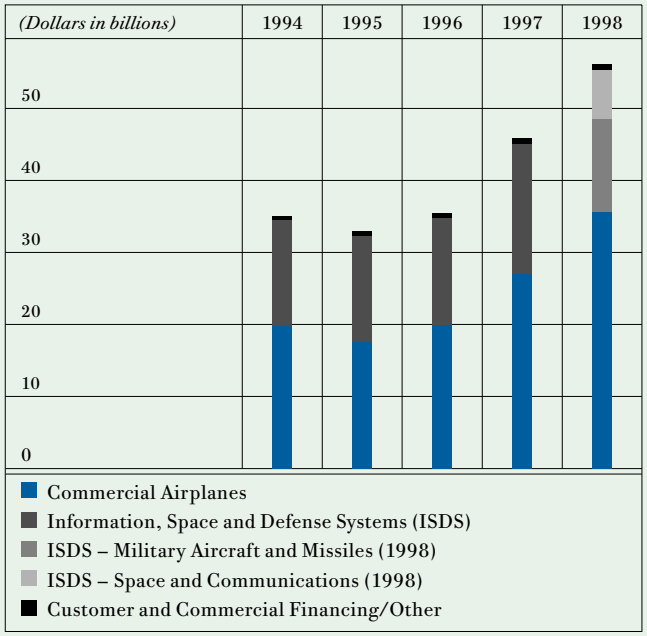
Merger with McDonnell Douglas Corporation
On August 1, 1997, McDonnell Douglas Corporation merged with the Company through a stock-for-stock exchange in which 1.3 shares of Company stock were issued for each share of McDonnell Douglas stock outstanding. The merger has been accounted for as a pooling of interests, and the discussion and analysis that follows reflects the combined results of operations and financial condition of the merged companies.

Information, Space and Defense Systems Segment Reporting
In 1998 the Information, Space and Defense Systems Group of the Company was reorganized into two groups: the Military Aircraft and Missile Systems Group and the Space and Communications Group, which will be reported as separate business segments for 1998 and on.

Results of Operations

Revenues
Operating revenues for 1998 were $56.2 billion, compared with $45.8 billion in 1997 and $35.5 billion in 1996. The higher revenues for both 1998 and 1997 reflect the increased deliveries in both the Commercial Airplanes and the Information, Space and Defense Systems segments. The 1998 and 1997 revenues include the operations of the aerospace and defense units acquired from Rockwell International Corporation in December 1996.

Revenues by industry segment:



Forward-Looking Information Is Subject to Risk and Uncertainty

Certain statements in this release contain "forward-looking" information that involves risk and uncertainty, including projections for year 2000 date conversion, production rates, deliveries, customer financing, sales, revenues, margins, earnings, cash, scheduled launches of products, research and development expense, inventory turn rates, employment, asset utilization, and other trend projections. This forward-looking information is based upon a number of assumptions, including assumptions regarding demand, internal performance, customer financing, customer, supplier and subcontractor performance, customer model and feature selections, government policies and actions, and price escalation. Actual future results and trends may differ materially depending on a variety of factors, including the Company's successful execution of internal performance plans, including research and development, production recovery, production rate increases and decreases, production system initiatives and other cost-reduction efforts; the cyclical nature of the Company's business; volatility of the market for certain products; continued integration of McDonnell Douglas Corporation; product performance risks associated with regulatory certifications of the Company's commercial aircraft by the U.S. Government and foreign governments; other regulatory uncertainties; collective bargaining labor disputes; performance issues with key suppliers, subcontractors and customers; customer model and feature selections, governmental export and import policies; factors that result in significant and prolonged disruption to air travel worldwide; global trade policies; worldwide political stability and economic conditions, particularly in Asia; price escalation trends; changing priorities or reductions in the U.S. Government defense and space budgets; termination of government contracts due to unilateral government action or failure to perform; and legal proceedings.

Commercial Airplanes

Commercial Airplanes products and services accounted for 63%, 59% and 56% of total operating revenues for the years 1998, 1997 and 1996, respectively.

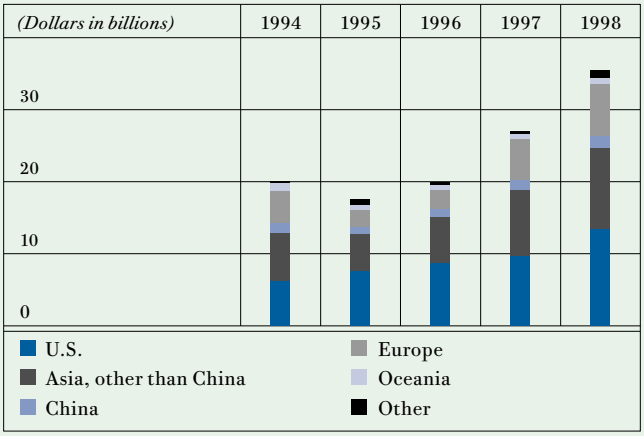
Total commercial jet aircraft deliveries by model, including deliveries under operating lease, which are identified by the number in parentheses, were as follows:

	1998	1997	1996
737 Classic	116 (6)	132	76
737 NG	165	3	–
747	53 (3)	39	26
757	50	46	42
767	47	41	42
777	74	59	32
MD-80	8 (4)	16 (7)	12 (1)
MD-90	34	26 (5)	24 (2)
MD-11	12 (2)	12 (1)	15 (2)
Total	559	374	269

The MD-80 and MD-90 aircraft will not be produced after early 2000. Final delivery of the MD-11 aircraft will be in 2001. First delivery of the 717 aircraft (formerly the MD-95) is scheduled for mid-1999.

Total commercial aircraft deliveries for 1999 are currently projected to be in the range of 620 aircraft, including approximately 360 777s and Next-Generation 737s. Based on current plans, Commercial Airplanes revenues for 1999 are expected to be in the $38 billion range. Total commercial aircraft deliveries for 2000 are currently projected to be in the range of 480 aircraft. Commercial aircraft transportation trends are discussed in the Commercial Airplanes Business Environment and Trends section on pages 44-46.

Commercial Airplanes sales by geographic region:



Information, Space and Defense Systems

Information, Space and Defense Systems segment revenues were $19.9 billion in 1998, compared with $18.1 billion in 1997 and $14.9 billion in 1996. The 1998 revenues of $19.9 billion are composed of $13.0 billion for Military Aircraft and Missiles and $6.9 billion for Space and Communications. Revenues for 1998 and 1997 include the aerospace and defense operations acquired from Rockwell in 1996. A 14-week labor strike at the St. Louis, Missouri, facilities delayed certain deliveries in 1996, principally involving military aircraft.

The Company's Information, Space and Defense Systems business is broadly diversified, and no program accounted for more than 15% of total 1996-1998 segment revenues.

The principal contributors to 1998 Information, Space and Defense Systems revenues included the Military Aircraft and Missiles programs of C-17, F-15, F/A-18 C/D, F/A-18 E/F, and AH-64 Apache; and the Space and Communications programs of the International Space Station, E-3 AWACS (Airborne Warning and Control System) updates and 767 AWACS, and the Delta II space launcher. Classified projects for the U.S. Government also continued to contribute to revenues.

Deliveries of selected production units were as follows:

	1998	1997	1996
C-17	10	7	6
F-15	39	19	11
F/A-18 C/D	29	46	32
F/A-18 C/D Kits	–	20	9
T-45TS	16	11	9
CH-47	18	1	–
757/C-32A	4	–	–
767 AWACS	2	–	–
Delta II	13	12	11
Delta III	1	–	–

Military Aircraft and Missiles segment revenues for 1999 are projected to be in the $12 billion range, and 1999 revenues for Space and Communications are projected to be in the $7 billion range.

Segment business trends are discussed in the Information, Space and Defense Systems Business Environment and Trends section on pages 46 and 47.

Customer and Commercial Financing/Other
Operating revenues in the Customer and Commercial Financing/Other segment were $730 million in 1998, compared with $746 million in 1997 and $603 million in 1996. The major revenue components include commercial aircraft financing and commercial equipment leasing.

Additional information about revenues and earnings contributions by business segment is presented on pages 50 - 52.

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Based on current schedules and plans, the Company projects total 1999 revenues to be approximately $58 billion.

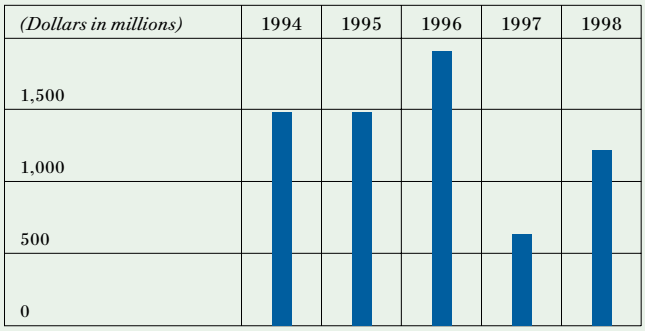
Earnings
Net earnings for the three years include a significant special charge in addition to earnings fluctuations associated with the Company's share-based plans as summarized below (net of income tax):

(Dollars in millions)	1998	1997	1996
Comparative net earnings before special charges and share-based plans	$1,216	$ 632	$1,905
Special charges principally associated with Douglas products (MD-series aircraft)		(876)	
Share-based plans	(96)	66	(87)
Net earnings (loss)	$1,120	$(178)	$1,818

In the fourth quarter of 1997, the Company completed an assessment of the financial impact of its post-merger strategy decisions related to its McDonnell Douglas Corporation commercial aircraft product lines, and recorded a special pretax charge of $1,400 million, or $876 million after tax, relative to these decisions. The charge principally represented an inventory valuation adjustment based on post-merger assessments of the market conditions and related program decisions. Also included in the charge were valuation adjustments in connection with customer financing assets and commitments.

The share-based plans are discussed on page 49 and in Note 16 to the consolidated financial statements on pages 68 - 70.

Comparative net earnings (exclusive of special charges and share-based plans):



Comparative earnings of $1,216 million for 1998 were $584 million higher than for 1997 primarily due to higher commercial aircraft deliveries in 1998, a higher loss recognized in 1997 for the Next-Generation 737 ($218 million after tax), merger-related expenses of $120 million in 1997, and prior years' defense-related partnership research and development tax credits amounting to $57 million recognized in 1998. Additionally, interest income was lower in 1998.

Comparative net earnings for 1997 were $1,273 million lower than for 1996 primarily due to commercial aircraft production inefficiencies associated with significant production rate increases. Additionally, 1997 results included increased research and development spending ($182 million after tax), merger-related expenses, and increased interest and debt expense ($75 million after tax). Partially offsetting these factors were the earnings associated with the higher sales levels in 1997 and increased interest income of $25 million after tax. The 1996 results included $199 million of after-tax income related to the settlement of certain Information, Space and Defense Systems segment contract issues and recognition of prior years' tax benefits.

Based on current plans and schedules, total Company net earnings for 1999, including share-based plans, are expected to be in the range of $1.5 billion to $1.8 billion, excluding potential favorable tax claim settlements.

Operating results trends are not significantly influenced by the effect of changing prices since most of the Company's business is performed under contract.

Operating Profit

Commercial Airplanes

The 1998 Commercial Airplanes segment earnings from operations margin, exclusive of research and development expense, forward losses, and valuation adjustments, was 4% for 1998, compared with approximately 5% for 1997 (excluding special charges) and more than 10% for 1996. Segment revenues and earnings are presented on page 51. The low overall Commercial Airplanes operating profit margins for 1998 and 1997 were due to production problems, the model mix of aircraft deliveries, lower price-escalation trends and continued pricing pressures.

Production problems experienced on the commercial aircraft programs reached unexpected levels late in the third quarter of 1997. During this period, the Company was in the midst of an unprecedented production rate build-up for the 7-series commercial aircraft programs, and experienced a number of challenges, including raw material shortages, internal and supplier parts shortages, and productivity inefficiencies associated with adding thousands of new employees. These factors resulted in significant out-of-sequence work. The breadth and complexity of the entire commercial aircraft production process, especially during this time of substantial production rate increases, presented a situation where disrupted process flows caused major inefficiencies throughout the entire process chain. The 747 and 737 production lines were halted for approximately one month early in the fourth quarter of 1997. The recovery plan continued throughout 1998.

The Company delivered 74 777 aircraft in 1998, compared with 59 in 1997, and 165 Next-Generation 737 models (737-600/700/800) in 1998, compared with 3 in 1997. New commercial jet aircraft programs normally have lower gross profit margins due to initial tooling amortization and higher unit production costs in the early years of a program averaged over the initial production quantity. A pretax forward loss of $350 million was recognized in the first quarter of 1998 in addition to the $700 million recognized in the third quarter of 1997 for the Next-Generation 737 program. Consequently, there was no gross profit for the Next-Generation 737 program in 1998. Deliveries of the 777 and the Next-Generation 737 will constitute a much larger proportion of Commercial Airplanes sales in 1999 than they did in 1998.

With respect to the 717 program, for which deliveries begin in 1999, no gross profit will be initially recognized. The Company has significant exposures related to the 717 program, principally related to supplier commitments beyond firm backlog.

The commercial jet aircraft market and the airline industry remain extremely competitive. Competitive pressures and increased lower-fare personal travel have combined to cause a long-term downward trend in passenger revenue yields worldwide (measured in real terms). Over the past five years, airplane capacity increases in the United States have lagged air travel growth, resulting in stable or increasing passenger yields. In Asia, slowing economies, reduced business travel, and currency devaluations are contributing to sharply lower yields. These factors result in continued price pressure on the Company's products. Major productivity gains are essential to ensure a favorable market position at acceptable profit margins.

The overall Commercial Airplanes segment operating profit margin for 1998 was 0.2% and is currently projected to be in the 2% to 3% range for 1999.

Information, Space and Defense Systems

Information, Space and Defense Systems segment operating profits for 1998, 1997 and 1996 are presented on page 51. The operating profits include the impact of joint venture losses which were driven by development costs expensed as incurred, amounting to $127 million, $102 million and $53 million, respectively. The costs were primarily associated with the Sea Launch program, (a commercial satellite launch venture with Norwegian, Russian and Ukrainian partners) and the Civil Tiltrotor program (a collaboration with Bell Helicopter Textron, Inc., to build a commercial variant of the V-22).

In 1998 the Company announced that it would exit the market for commercial helicopters. As part of that strategic decision, the Company transferred its interest in the Civil Tiltrotor program to Bell Helicopter Textron in early 1998. Also, in the first quarter of 1999, the Company sold the MD 500, MD 600 and MD Explorer light commercial helicopter product lines to RDM Holding, Inc., a European-based industrial group.

Segment operating profits for 1996 included $114 million of pretax earnings related to the settlement of various contract issues.

Excluding joint venture losses and settlement of contract issues, the Information, Space and Defense Systems segment operating margin before research and development was approximately 12.7% in 1998 and 12% for each of the years 1997 and 1996.

A significant percentage of Information, Space and Defense Systems segment business has been in developmental programs under cost-reimbursement-type contracts, which generally have lower profit margins than fixed-price-type contracts. Current major developmental programs include the International Space Station, F/A-18 E/F, F-22 Fighter, Joint Strike Fighter, V-22 Osprey tiltrotor aircraft, the RAH-66 Comanche helicopter, and the National Missile Defense (NMD) Lead System Integration (LSI). The F/A-18 E/F and V-22 Osprey tiltrotor aircraft programs are currently transitioning to low-rate initial production, and the F-22 Raptor has received long-lead funding for low-rate initial production.

Although program expenditures are normally committed based on orders under contract, the Company currently has significant exposure related to long-lead requirements for the F-15 program for deliveries beyond 2000.

Joint venture losses will continue in 1999, principally from development and administrative costs on the Sea Launch program.

The Sea Launch assembly and command ship and the launch platform were completed in June 1998. Boeing is a 40% partner in Sea Launch with RSC Energia (25%) from Russia, Kvaerner Maritime (20%) from Norway, and KB Yuzhnoye/PO Yuzhmach (15%) from Ukraine.

The first launch from this sea-based platform will be a demonstration payload. Hughes Space & Communications International, Inc., and Space Systems/Loral are the first Sea Launch customers, with announced orders for 18 launches plus options. Technical failure on the initial launch could substantially impair the prospect for additional customers' acceptance and could consequently result in significant reduction to the value of the Sea Launch program assets. Ongoing viability of the Sea Launch program will depend on consistent launch reliability.

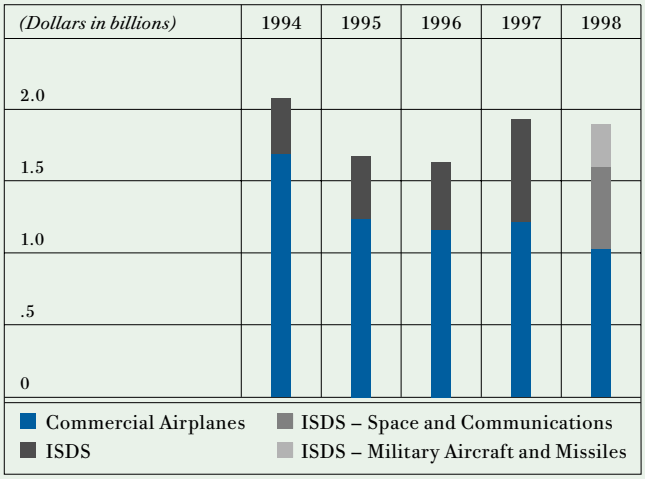
The Company and Lockheed Martin are 50/50 partners in United Space Alliance, which is responsible for all ground processing of the Space Shuttle fleet and for space-related operations with the U.S. Air Force. United Space Alliance also performs the modification, testing and checkout operations required to ready the Space Shuttle for launch. Although the joint venture operations are not included in the Company's consolidated statements, the Company's proportionate share of joint venture earnings is recognized in income.

The Military Aircraft and Missiles segment operating profit margin for 1998 was 9.9% and is currently projected to be in the 9.5% to 10.5% range in 1999. The Space and Communications segment operating profit margin for 1998 was 3.6%, and is projected to be in the 4% to 5% range for 1999.

Research and Development

Research and development expenditures charged directly to earnings include design, developmental and related test activities for new and derivative commercial jet aircraft, other company-sponsored product development, and basic research and development, including amounts allocable as overhead costs on U.S. Government contracts.

Research and development expense:



In 1998 total research and development expense was $1.9 billion, about the same as in 1997. A decline in the Commercial Airplanes segment research and development expense was largely offset by an increase in the Space and Communications segment.

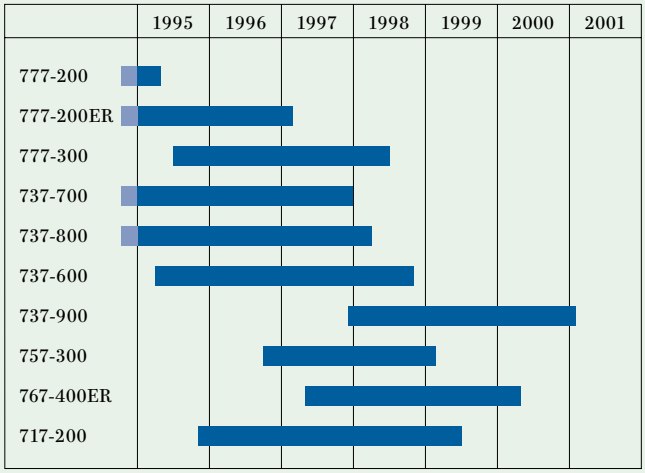
Research and development expense had increased in 1997 by $291 million relative to 1996, primarily due to the inclusion of the aerospace and defense units acquired from Rockwell in 1996, and spending in commercial space and communications activities. Commercial Airplanes research and development expense for 1997 was approximately the same as in 1996. Research and development expense by segment is included on page 52.

Commercial Airplanes

The principal commercial aircraft developmental programs during the 1996-1998 period were the 777 widebody twinjet, the Next-Generation 737 family, and the 717 program. The first delivery of the 777 occurred in May 1995. Development of the 777-200ER extended-range version of the 777 began in 1995 and continued in 1996, with certification and first delivery in early 1997. First delivery of the increased-capacity 777-300 derivative occurred in May 1998. Certification and first deliveries of the 737-700, the first of four new 737 derivative models, occurred in December 1997. Certification and first delivery of the 737-800 and 737-600 occurred in 1998. The 737-900, the longest member of the Next-Generation 737 family, received its first order in late 1997, with first delivery scheduled for 2001. The 757-300, a stretched derivative of the 757-200, is scheduled for

first delivery in early 1999; and the 767-400ER, a stretched version of the 767-300ER, is scheduled for first delivery in 2000. The 717-200 is currently in development, with first delivery scheduled for mid-1999.

The following chart summarizes the time horizon between go-ahead and certification/first delivery for major Commercial Airplanes derivatives and programs.



Information, Space and Defense Systems

The Information, Space and Defense Systems segment continues to selectively pursue commercial business opportunities where it can use its technical and large-scale integration capabilities. Such business pursuits, which are outside the traditional U.S. Government contracting environment, are expected to require significant levels of research and development expenditures over the next few years. The segment's commercial developmental programs include the Delta family of launch vehicles.

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Total Company research and development expenditures for 1999 will be influenced by the timing of commercial aircraft derivative programs and commercial space and communication activities. Based on current programs and plans, research and development expense for 1999 is expected to be in the $1.6 billion to $1.8 billion range, with about half related to the Commercial Airplanes segment. Research and development activities are further discussed in the Strategic Investments for Long-Term Value section on pages 47 and 48.

Income Taxes

The 1998 effective income tax rate of 19.8% reflects the settlement of prior years' defense-related partnership research and development tax credits of $57 million, as well as Foreign Sales Corporation tax benefits of $130 million.

The income tax provision for 1997 is a tax credit resulting from application of the tax rate to a pretax loss. The relatively high effective 1997 income tax rate of 47.8% reflects additional benefits, principally Foreign Sales Corporation tax benefits of $79 million. These benefits were partially offset by the nondeductibility of goodwill and merger costs.

The 1996 effective income tax rate of 26.7% reflects tax benefits of $125 million related to prior years, as well as Foreign Sales Corporation tax benefits of $110 million.

Over the past three years, excluding tax benefits related to prior periods and the impact of special charges, the effective income tax rate has been about 30%. The Company expects the comparable 1999 rate to continue to be in that range.

Additional information relating to income taxes is found in Note 11 to the consolidated financial statements on pages 63 and 64.

Labor Negotiations and Workforce Levels

As of December 31, 1998, the Company's principal collective bargaining agreements were with the International Association of Machinists and Aerospace Workers (IAM) representing 30% of employees (current agreements expiring September 1999, October 1999, and May 2001), Seattle Professional Engineering Employees Association (SPEEA) representing 12% of employees (current agreements expiring December 1999), the United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) representing 6% of employees (current agreements expiring June 1999, September 1999, and April 2000), and Southern California Professional Engineering Association (SCPEA) representing 2% of employees (current agreement expiring March 2001).

The Company believes that bargaining agreements in the best interest of both the represented employees and the Company are attainable, and the Company's stated objective is to reach a settlement without disruption. The effects of a strike on the results of operations and financial position are uncertain, but could be material depending on the strike duration.

The Company's workforce level at December 31, 1998, was 231,000. The year-end 1999 workforce level is projected to be in the range of 200,000 to 210,000.

Derivative Instruments and Hedging Activities

In 1998, Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, was issued. The Company plans to adopt this statement beginning in the year 2000. Adoption of this standard is not expected to have a significant impact on the financial results of the Company.

Liquidity and Capital Resources

The primary factors that affect the Company's investment requirements and liquidity position, other than operating results associated with current sales activity, include the timing of new and derivative programs requiring both high developmental expenditures and initial inventory buildup; cyclical growth and expansion requirements; customer financing assistance; the timing of federal income tax payments; and the Company's stock repurchase plan.

Cash Flow Summary

Following is a summary of Company cash flows based on changes in cash and short-term investments. This cash flow summary is not intended to replace the Consolidated Statements of Cash Flows on page 55 that are prepared in accordance with generally accepted accounting principles, but is intended to highlight and facilitate understanding of the principal cash flow elements.

(Dollars in billions)	1998	1997	1996
Net earnings (loss)	$ 1.1	$(0.2)	$ 1.8
Non-cash charges to earnings (a)	1.8	2.8	1.5
Net earnings adjusted for certain non-cash items	2.9	2.6	3.3
Change in gross inventory (b)	1.5	(4.9)	(1.9)
Change in customer advances (c)	(0.9)	3.9	2.2
Net changes in receivables, liabilities and deferred income taxes (d)	(1.2)	0.7	1.1
Facilities and equipment expenditures	(1.6)	(1.4)	(1.0)
Change in customer and commercial financing (e)	(1.2)	(0.9)	0.3
Pension income (expense) variance to funding	(0.3)	(0.3)	(0.2)
Cash flows from operating and investing activities	(0.8)	(0.3)	3.8
Change in debt (f)	0.1	(0.6)	(0.1)
Net shares issued (acquired) (g)	(1.3)	0.3	(0.5)
ShareValue Trust shares acquired (h)			(0.9)
Cash dividends	(0.6)	(0.6)	(0.5)
Increase (decrease) in cash and short-term investments	$(2.6)	$(1.2)	$ 1.8
Cash and short-term investments at end of year	$ 2.5	$ 5.1	$ 6.3

(a) Non-cash charges to earnings as presented here consist of depreciation, amortization, retiree health care accruals, share-based plans, and the special charges in 1997 for Douglas products programs. The Company has not funded retiree health care accruals and, at this time, has no plan to fund these accruals in the future. The share-based plans do not impact current or future cash flow, except for the associated positive cash flow tax implications. The special charges associated with the Douglas products programs principally involved inventory balance valuation adjustments.

(b) Inventory associated with the 777 program increased substantially in 1996 and 1997, and declined in 1998 due to amortization of initial tooling and deferred production costs. Inventory balances on the 747, 757 and 767 commercial jet programs increased in 1997 and 1998 due to increased production rates. Additionally, production and tooling inventory increased on the new 737-600/700/800/900 program in 1996, 1997 and 1998.

(c) The increases and decreases in commercial customer advances during 1996, 1997 and 1998 were broadly distributed among the commercial jet programs, and generally correspond to orders and production rate levels. With regard to Information, Space and Defense Systems segment activity, the ratio of progress billings to gross inventory did not significantly change during this period.

(d) Over the three-year period 1996-1998, changes in accounts receivable, accounts payable, other liabilities and deferred taxes resulted in a net increase in cash of $0.6 billion. This was largely attributable to increases in accounts payable and other liabilities of $1.2 billion, mostly as a result of increased business activity, partially offset by income taxes payable and deferred of $0.4 billion. Excluding potential tax claim settlements discussed in Note 11 to the financial statements, federal income tax payments over the next three years are projected to substantially exceed income tax expense due to anticipated completion of contracts executed under prior tax regulations.

(e) The changes in customer financing balances have been largely driven by commercial aircraft market conditions and the ability of the Company to sell customer financing assets. Over the three-year period 1996-1998, the Company generated $3.9 billion of cash from principal repayments and by selling customer financing receivables and operating lease assets. Over the same period, additions to customer financing amounted to $5.8 billion. As of December 31, 1998, the Company had outstanding commitments of approximately $6.2 billion to arrange or provide financing related to aircraft on order or under option

for deliveries scheduled through the year 2004. Not all these commitments are likely to be used; however, a significant portion of these commitments is with parties with relatively low credit ratings. See Note 19 to the financial statements concerning concentration of credit risk. The Company will continue to sell financing assets from time to time when capital markets are favorable in order to maintain maximum capital resource flexibility. Outstanding loans and commitments are primarily secured by the underlying aircraft.

(f) Debt amounting to $301 million matured in 1998, and $300 million was added with maturity in 2038. In 1997, debt amounting to $637 million matured, and the Company also retired $230 million of debt through a tender offer for the 9.25% notes due April 1, 2002. Additionally, Boeing Capital Corporation, a corporation wholly owned by the Company, issued $511 million of debt in 1998 and $225 million in 1997.

(g) In the third quarter of 1998, the Company announced a share repurchase program to buy up to 15% of the Company's outstanding shares of common stock. In 1998 the Company repurchased 35.2 million shares of stock (approximately 3.5% of outstanding stock) for $1.3 billion.

(h) Total funding of the ShareValue Trust was $1.7 billion; however, a portion of the funding was accomplished through the transfer of treasury shares and the issuance of new shares.

Capital Resources

The Company has unsecured long-term debt obligations of $6.1 billion. Approximately $650 million matures in 1999, and the balance has an average maturity of 16 years. Total long-term debt as of year-end 1998 amounted to 33% of total capital (shareholders' equity plus borrowings). The Company has substantial additional long-term borrowing capability. Revolving credit line agreements with a group of major banks, totaling $2.64 billion, remain available but unused.

The Company believes its internally generated liquidity, together with access to external capital resources, will be sufficient to satisfy existing commitments and plans, and also to provide adequate financial flexibility to take advantage of potential strategic business opportunities should they arise, and to continue to repurchase Company stock per the share repurchase program.

Contingent Items

The Company is subject to federal and state requirements for protection of the environment, including those for discharge of hazardous materials and remediation of contaminated sites. Due in part to their complexity and pervasiveness, such requirements have resulted in the Company being involved with related legal proceedings, claims and remediation obligations since the 1980s.

The Company routinely assesses, based on in-depth studies, expert analyses and legal reviews, its contingencies, obligations and commitments for remediation of contaminated sites, including assessments of ranges and probabilities of recoveries from other responsible parties who have and have not agreed to a settlement and of recoveries from insurance carriers. The Company's policy is to immediately accrue and charge to current expense identified exposures related to environmental remediation sites based on conservative estimates of investigation, cleanup and monitoring costs to be incurred.

The costs incurred and expected to be incurred in connection with such activities have not had, and are not expected to have, a material impact to the Company's financial position. With respect to results of operations, related charges have averaged less than 2% of annual net earnings exclusive of special charges. Such accruals as of December 31, 1998, without consideration for the related contingent recoveries from insurance carriers, are less than 2% of total liabilities.

Because of the regulatory complexities and risk of unidentified contaminated sites and circumstances, the potential exists for environmental remediation costs to be materially different from the estimated costs accrued for identified contaminated sites. However, based on all known facts and expert analyses, the Company believes it is not reasonably likely that identified environmental contingencies will result in additional costs that would have a material adverse impact to the Company's financial position or operating results and cash flow trends.

The Company is subject to U.S. Government investigations of its practices from which civil, criminal or administrative proceedings could result. Such proceedings could involve claims by the Government for fines, penalties, compensatory and treble damages, restitution and/or forfeitures. Under government regulations, a company, or one or more of its operating divisions or subdivisions, can also be suspended or debarred from government contracts, or lose its export privileges, based on the results of investigations. The Company believes, based upon all available information, that the outcome of any such government disputes and investigations will not have a material adverse effect on its financial position or continuing operations.

In 1991 the U.S. Navy notified the Company and General Dynamics Corporation (the Team) that it was terminating for default the Team's contract for development and initial production of the A-12 aircraft. The Team filed a legal action to contest the Navy's default termination, to assert its rights to convert the termination to one for "the convenience of the Government," and to obtain payment for work done and costs incurred on the A-12 contract but not paid to date. At December 31, 1998, inventories included approximately $581 million of recorded costs on the A-12 contract, against which the Company has established a loss provision of $350 million. The amount of the provision, which was established in 1990, was based on the Company's belief, supported by an opinion of outside counsel, that the termination for default would be converted to a termination for convenience, that the Team would establish a claim for contract adjustments for a minimum of $250 million, that there was a range of reasonably possible results on termination for convenience, and that it was prudent to provide for what the Company then believed was the upper range of possible loss on termination for convenience, which was $350 million.

On December 19, 1995, the U.S. Court of Federal Claims ordered that the Government's termination of the A-12 contract for default be converted to a termination for convenience of the Government. On December 13, 1996, the court issued an opinion confirming its prior no-loss adjustment and no-profit recovery order. On December 5, 1997, the Court issued an opinion confirming its preliminary holding that plaintiffs were entitled to certain adjustments to the contract funding, increasing the plaintiffs' possible recovery to $1,200 million. On March 31, 1998, the Court entered a judgment, pursuant to a March 30, 1998, opinion and order, determining that plaintiffs were entitled to be paid that amount, plus statutory interest from June 26, 1991, until paid.

Although the Government has appealed the resulting judgment, the Company believes the judgment will be sustained. Final resolution of the A-12 litigation will depend on such appeals and possible further litigation, or negotiations, with the Government. If sustained, however, the expected damages judgment, including interest, could result in pretax income that would more than offset the $350 million loss provision established in 1990.

On October 31, 1997, a federal securities lawsuit was filed against the Company in the U.S. District Court for the Western District of Washington in Seattle. The lawsuit names as defendants the Company and three of its executive officers. Additional lawsuits of a similar nature have been filed. The plaintiffs in each lawsuit seek to represent a class of purchasers of Boeing stock between July 21, 1997, and October 22, 1997, (the "Class Period"), including recipients of Boeing stock in the McDonnell Douglas merger. July 21, 1997, was the date on which the Company announced its second quarter results, and October 22, 1997, was the date on which the Company announced charges to earnings associated with production problems being experienced on commercial aircraft programs. The lawsuits generally allege that the defendants desired to keep the Company's share price as high as possible in order to ensure that the McDonnell Douglas shareholders would approve the merger and, in the case of two of the individual defendants, to benefit directly from the sale of Boeing stock during the Class Period. The plaintiffs seek compensatory damages and treble damages. The Company believes that the allegations are without merit and that the outcome of these lawsuits will not have a material adverse effect on its earnings, cash flow or financial position.

On June 6, 1998, sixteen African American employees of The Boeing Company, previously employed at several distinct units of The Boeing Company, McDonnell Douglas Corporation and Rockwell International Corporation, filed a complaint in the U.S. District Court for the Western District of Washington (Washington Class Action) alleging, on the basis of race, discrimination in promotions and training. The plaintiffs also allege retaliation and harassment and seek, among other things, an order certifying a class of all African American employees who are currently working or have worked for the three companies during the past few years. Also, on July 31, 1998, seven African American employees of the helicopter division of the Military Aircraft and Missile Systems Group in Philadelphia filed an action in the U.S. District Court for the Eastern District of Pennsylvania (Philadelphia Class Action) alleging, on the basis of race, discrimination in compensation, promotions and terminations. The complaint also alleges retaliation at that division. Plaintiffs are seeking an order certifying a class of all African American employees of The Boeing Company. In September 1998, the Court denied plaintiffs' motion seeking class certification, but allowed plaintiffs to renew their motion upon completion of class discovery.

On January 25, 1999, the U.S. District Court in the Western District of Washington entered an order preliminarily approving a proposed Consent Decree, which settles both the Washington Class Action and the Philadelphia Class Action, along with a multi-plaintiff racial discrimination lawsuit. The order, *inter alia*, conditionally certified a nationwide class of 20,000 current and former African American Boeing (including all U.S. subsidiaries and former McDonnell Douglas Corporation and Rockwell International) employees. If approved by the Court, the Company will pay $15 million allocated in

a manner described in the proposed Consent Decree. The Company will devise systems changes that will inform hourly employee class members about the promotion selection process, and which employee was awarded a certain promotion; provide training and other programs to assist employees with career development; employ a consultant to assess these system changes; implement across the system a revised first-level management selection process and revised internal complaint process; and implement enforcement procedures to maintain a harassment-free workplace.

A hearing is set for May 26, 1999, to determine the fairness of the proposed Consent Decree and, if so determined, for the Court to approve the Consent Decree. The Company believes that the proposed Consent Decree, if approved, will not have a materially adverse effect on its earnings, cash flow or financial position.

In December 1996, The Boeing Company filed suit in the U.S. District Court for the Western District of Washington for the refund of over $400 million in federal income taxes and related interest. The suit challenged the IRS method of allocating research and development costs for the purpose of determining tax incentive benefits on export sales through the Company's Domestic International Sales Corporation and its Foreign Sales Corporation for the years 1979 through 1987. In September 1998, the District Court granted the Company's motion for summary judgment. The U.S. Department of Justice has appealed this decision. If the Company were to prevail, the refund would include interest computed to the payment date. The issue could affect tax computations for subsequent years; however, the financial impact would depend on the final resolution of audits for those years.

Income taxes have been settled with the Internal Revenue Service (IRS) for all years through 1978, and IRS examinations have been completed through 1987. In connection with these examinations, the Company disagrees with IRS proposed adjustments, and the years 1979 through 1987 are in litigation. The Company has also filed refund claims for additional research and development tax credits, primarily in relation to its fixed-price government development programs. Successful resolutions will result in increased income to the Company.

Year 2000 (Y2K) Date Conversion

The Y2K issue exists because many computer systems, applications and assets use two-digit date fields to designate a year. As the century date change occurs, date-sensitive systems may recognize the year 2000 as the year 1900, or not at all. This inability to recognize or properly treat the year 2000 may cause systems to process financial and operations information incorrectly.

State of readiness: The Company recognized this challenge early, and major operating units started work in 1993. The Company's Y2K strategy to make systems "Y2K-ready" includes a common companywide focus on policies, methods and correction tools, and coordination with customers and suppliers. This focus has been on all systems potentially impacted by the Y2K issue, including information technology ("IT") systems and non-IT systems, such as embedded systems, facilities and factory floor systems. Each operating unit has responsibility for its own conversion, in line with overall guidance and oversight provided by a corporate-level steering committee.

The Company has largely completed remediation of systems to meet safety and business continuity concerns and has a plan in place that targets deployment of Y2K-ready systems companywide by July 31, 1999. The Company is continuing to emphasize the safety and quality of Boeing products and to clarify that Y2K is a business challenge and not limited to computers. The Company is capitalizing on its history of integrating complex systems, has an experienced Y2K team in place headed by the Company's chief information officer, and is working to ensure supplier and customer readiness as appropriate.

The Company has identified approximately 14,000 computing systems and assessed them for Y2K readiness. More than 90% of the systems were made Y2K-ready by December 31, 1998. The status of each of the remaining systems will be specifically tracked and monitored. The schedule is for IT and non-IT systems to complete conversion, testing and deployment by July 31, 1999.

A companywide, coordinated process to assess supplier readiness began in the second quarter of 1998. The Company is unable to definitively determine that all major suppliers will reach a Y2K-ready status that will ensure no production disruption from suppliers.

Costs to address Y2K issues: The Company's Y2K conversion efforts have not been budgeted and tracked as separate projects, but have occurred in conjunction with normal sustaining activities. Total application-sustaining IT costs have averaged approximately $350 million per year over the last three years. Y2K conversion efforts have averaged approximately 10% of total sustaining IT costs for these years, and are expected to represent a lower percentage in 1999. In addition to these sustaining costs, discretely identifiable costs associated with Y2K conversion activities are expected to total $16 million. The costs of non-IT conversion efforts have also been incurred in conjunction with normal sustaining activities. The Company does not expect a reduction in the costs of these sustaining activities when Y2K conversion activities are completed because normal sustaining activities will be ongoing. Reprioritizing sustaining activities to support Y2K conversion activities has not had, and is not expected to have, an adverse impact on operations.

Risks associated with Y2K issues: The Company believes there is low risk of any internal critical system, embedded system, or other critical asset not being Y2K-ready by the end of 1999. The Company continues to assess its risk exposure attributable to external factors and suppliers, including suppliers outside the United States. Although the Company has no reason to conclude that any specific supplier represents a risk, the most reasonably likely worst-case Y2K scenario would entail production disruption due to inability of suppliers, some of whom represent the sole source for certain items, to deliver critical parts. The Company is unable to quantify such a scenario, but it could potentially result in a material adverse impact on results of operations, liquidity or financial position of the Company. Contingency plans for suppliers and mission critical systems impacted by Y2K issues are currently being developed. Where appropriate, these plans will include leveraging the existing communications and transportation infrastructure created by the Company's Disaster Preparedness Program, which is designed to respond to disaster scenarios caused by natural, technological and manmade factors.

Boeing continues to work closely with local, state and federal emergency management organizations to ensure that coordinated plans are in place in case infrastructure problems occur in the year 2000.

Market Risk Exposure

The Company has financial instruments that are subject to interest rate risk, principally short-term investments, fixed-rate notes receivable attributable to customer financing, and debt obligations issued at a fixed rate. Historically, the Company has not experienced material gains or losses due to interest rate changes when selling short-term investments or fixed-rate notes receivable. Additionally, the Company uses interest rate swaps to manage exposure to interest rate changes. Based on the current holdings of short-term investments and fixed-rate notes, as well as underlying swaps, the exposure to interest rate risk is not material. Fixed-rate debt obligations issued by the Company are generally not callable until maturity.

The Company is subject to foreign currency exchange rate risk relating to receipts from customers and payments to suppliers in foreign currencies. As a general policy, the Company substantially hedges foreign currency commitments of future payments and receipts by purchasing foreign currency-forward contracts. As of December 31, 1998, the notional value of such derivatives was $395 million, with a net unrealized gain of $2 million. Less than 1% of receipts and expenditures are contracted in foreign currencies, and the Company does not consider the market risk exposure relating to currency exchange to be material.

Commercial Airplanes Business Environment and Trends

The worldwide market for commercial jet aircraft is predominantly driven by long-term trends in airline passenger traffic. The principal factors underlying long-term traffic growth are sustained economic growth, both in developed and emerging countries, and political stability. Demand for the Company's commercial aircraft is further influenced by airline industry profitability, world trade policies, government-to-government relations, environmental constraints imposed upon aircraft operations, technological changes, and price and other competitive factors.

Global Economic and Passenger Traffic Trends

As the world economy improved in this decade, airline passenger traffic increased. For the five-year period 1994-1998, the average annual growth rate for worldwide passenger traffic was approximately 6.0%. The Company's 20-year forecast of the average long-term growth rate in passenger traffic is approximately 4.7% annually, based on projected average worldwide annual economic real growth of 2.9% over the 20-year period.

Based on global economic growth projections over the long term, and taking into consideration increasing utilization levels of the worldwide aircraft fleet and requirements to replace older aircraft, the Company projects the total commercial jet aircraft market over the next 20 years at more than $1,000 billion in 1998 dollars.

Asia-Pacific Economies

Results in 1998 for Asia-Pacific airlines were mixed. Recessions are now under way throughout Asia, impacting the economies of Japan, Malaysia, the Philippines, Hong Kong, Singapore, Indonesia, Thailand and South Korea. Air travel declined in a number of regional markets. Passenger load factors declined and some airlines reported net losses. With growth in the region lower than past forecasts, airlines, including those in China, are reassessing the number and timing of aircraft contracted to deliver during the next several years.

Airline Profitability

Through a combination of passenger traffic growth, improved revenue, lower fuel costs and aggressive cost control measures, the airline industry as a whole significantly improved operating profitability and net earnings over the past few years. The industry realized a substantial positive level of earnings over the four-year period 1995-1998. The outlook for passenger traffic growth in 1999 is generally positive, especially in the United States, Europe, Latin America and for trans-Atlantic flights. Continued profitability levels depend on sustained economic growth, limited wage increases, and capacity additions in line with traffic increases.

Airline Deregulation

Worldwide, the airline industry has experienced progressive deregulation of domestic markets and increasing liberalization of international markets. Twenty years ago virtually all air travel took place within a framework of domestic and international regulatory oversight. Since then, several countries, most notably the United States, Australia, Japan and the countries in Western Europe, have eliminated restrictive regulations for domestic airline markets and promoted a more open-market climate for international services. Currently, more than half of all air travel takes place within an open-market environment. These trends are expected to continue, but at varying rates in different parts of the world.

Liberalization of government regulations, together with increased aircraft range capabilities, gives airlines greater freedom to pursue optimal fleet-mix strategies. This increased flexibility allows the airlines to accommodate traffic growth by selecting the best mix of flight frequencies and aircraft size and capabilities for their route systems. In intercontinental markets, more liberal bilateral air service agreements provide an important stimulus to opening new city-pair markets, which favor increased flight frequency over capacity growth. In parallel with regulatory liberalization, developments in improving aircraft range performance will continue to allow airlines to expand the number of direct city-to-city routes, thus reducing the reliance on indirect routes through central hubs that require larger capacity aircraft.

Industry Competitiveness and World Trade Policies

Over the past ten years, the Company (including McDonnell Douglas) has maintained, on average, approximately a two-thirds share of the available commercial jet aircraft market. Airbus Industrie is an aggressive competitor seeking to increase market share. This market environment has resulted in intense pressures on pricing and other competitive factors. The Company's focus on improving processes and other cost reduction efforts is intended to enhance its ability to pursue pricing strategies that enable the Company to maintain leadership at satisfactory margins.

The Company's extensive customer support services network for airlines throughout the world plays a key role in maintaining high customer satisfaction. On-line access is available to all airline customers for engineering drawings, parts lists, service bulletins and maintenance manuals.

Over the past five years, sales outside the United States have accounted for approximately 62% of the Company's total Commercial Airplanes sales; approximately 45% of the Commercial Airplanes contractual backlog at year-end 1998 was with customers based outside the United States. Continued access to global markets is extremely important to the Company's future ability to fully realize its sales potential and projected long-term investment returns.

In 1992 the U.S. Government and the European Community announced agreement on interpreting the commercial aircraft code of the General Agreement on Tariffs and Trade (GATT). The 1992 agreement bans government production subsidies and limits development support in the form of loans to 33% of development costs. The Company prefers a ban on all government subsidies for commercial airplane programs, and views the controls embodied in the 1992 agreement as an important step in limiting future government subsidies to Airbus Industrie. The announced intention by the four Airbus partners to transform the Airbus consortium into a commercial company may remove Airbus operations from government control and increase financial transparency.

The World Trade Organization (WTO), based in Geneva, promotes open and non-discriminatory trade among its members. It administers an improved subsidies code, applicable to all members, that provides important protections against injurious subsidies by governments. It also uses improved dispute settlement procedures to resolve disagreements among nations. The 1992 bilateral United States-European Union agreement and the WTO subsidies code constitute the basic limits on government supports of development costs.

Governments and companies in Asia and the former Soviet Union are seeking to develop or expand aircraft design and manufacturing capabilities through teaming arrangements with each other or current manufacturers. The Company continues to explore ways to expand its global presence in this environment.

In spite of the current Asian economic difficulties, Company forecasts indicate that the airlines in China represent a significant potential market for commercial jet aircraft over the next 20 years. However, if government and trade relations between the United States and China deteriorate significantly, the Company's ability to sell commercial aircraft to airlines in China could be severely constrained. The Company continues to support the Asia Pacific Economic Cooperation (APEC) forum to promote open trade and investment in the region. For other countries in Asia, economic growth must return if the potential of the region is to be realized.

Airlines in Russia and other states in the former Soviet Union operate a limited but increasing number of western-built aircraft. Because of slow economic growth, high customs duties, a shortage of foreign exchange, and legal and financing constraints, new aircraft orders have not been significant. The Company expects that the airlines and the aircraft manufacturing industry in this region will eventually be integrated into the international economy.

Summary

Although near-term market uncertainties remain, particularly with respect to the economic situation in certain Asian countries and open market access, the long-term market outlook appears favorable. The Company is well positioned in all segments of the commercial jet aircraft market, and intends to remain the airline industry's preferred supplier through emphasis on product offerings and customer service that provide the best overall value in the industry.

Information, Space and Defense Systems Business Environment and Trends

The Company's acquisition of the defense and space units of Rockwell and the merger with McDonnell Douglas have created a large and diversified business segment in Information, Space and Defense Systems. Boeing is the world's largest producer of military aircraft, the principal contractor for NASA, and the second largest U.S. Department of Defense (DoD) supplier. The Company's programs are well balanced between current production and upgrade activities and major development programs with large potential production quantities.

General Environment

The major trends that continue to shape the current Information, Space and Defense Systems segment business environment include significant but relatively flat DoD and NASA budgets; rapid expansion of information and communication technologies and market demand; and a convergence among military, civil and commercial markets.

The DoD remains the principal customer of this business segment, and DoD procurement funding levels are expected to remain essentially flat on an inflation-adjusted basis. The Company's DoD programs are subject to uncertain future funding levels, which can result in the stretch-out or termination of some programs. Congressional adoption of proposed DoD procurement reforms is believed to be important to the future funding levels available for the Company's defense products.

Domestically, continuing demands for peacekeeping operations are driving high usage of equipment, and the aging of equipment is creating operating cost affordability pressures. However, there is insufficient DoD budget to adequately modernize equipment and maintain a high level of readiness. These factors contribute to awareness in Congress that the DoD budget may need to be increased.

NASA's budget is also expected to remain relatively flat over the next several years. To generate additional procurement funds, NASA is likely to continue to outsource many of its operational functions.

A modest decline is forecast for the defense and space budgets of other countries. Current economic problems in certain Asian countries have resulted in the deferral of some modernization investments in defense. Sales of defense systems to allies in the Persian Gulf region will continue to be paced by regional tensions and oil revenues. In Europe, defense budgets are projected to gradually decline.

Overall the Company faces strong competition in all market segments. The acquisition and merger consolidations among U.S. aerospace companies have resulted in three principal prime contractors for the DoD and NASA, including the Company. While there may be some further niche acquisitions at the prime contractor level, the major area for further consolidation is likely to be among subcontractors to the primes. Lockheed Martin and Raytheon are the Company's primary U.S. competitors for this business segment, although in certain commercial markets Loral and Hughes are also principal competitors. As a result of the extensive consolidation in the defense and space industry, the Company and its major competitors are also partners with or major suppliers to each other on various programs.

The consolidation and rationalization of the European defense and space companies has been proceeding for several years, mainly within individual nations. Cross-border mergers in the form of joint ventures have been largely confined to individual market segments, such as satellites or missiles. Encouragement by the governments of France, Germany and the United Kingdom may result in broader mergers to create larger European companies. Internationally, the largest European aerospace companies compete in many of the same market segments with the Company's products and services. At the same time, these companies are also potential teaming partners.

Business Segment Product Lines

The newly formed Military Aircraft and Missiles segment produces tactical fighters, trainers, helicopters, military transports, tankers, strike missiles, and special purpose airplanes for the U.S. and foreign governments. The basic strategy is to provide a competitive product in every selected market segment. This business segment has several programs that are now in production for the DoD, such as the C-17 Transport, F/A-18 E/F, T-45 Trainer and V-22 Tiltrotor. Other programs include those that are still in development, such as the F-22 fighter and RAH-66, or in competitive development, such as the Joint Strike Fighter. Despite expected modest declines in global defense budgets, there continues to be strong international demand for military aircraft and missiles. Foreign sales approved by the U.S. Government are extending some product lines, such as the F-15 fighter, the Harpoon missile and the AH-64 and CH-47 helicopters. Based on these trends, moderate growth in this business segment is expected.

The newly formed Space and Communications segment participates in both government and commercial markets, including launch services, orbital systems and exploration, information and battle management systems, and missile defense systems.

The most significant market force affecting the launch services business is the projected growth in the commercial market for launches of communication satellites to low-earth orbit. The basic strategy is to provide a full family of space launch vehicles. The Space and Communications segment is well positioned with the Delta family and Sea Launch commercial launch vehicles, and is the prime contractor for NASA's Space Shuttle program.

The orbital systems and exploration market will be flat to slightly declining. Currently the major focus in this area is the International Space Station. The Company is the prime contractor for the program's development phase, and is positioned to continue as prime contractor throughout its lifetime in orbit. Investments are being made as well to assist NASA in its space exploration initiatives.

The addressable market components of the global information and communications industry are valued at approximately $20 billion in 1998 dollars and are forecast to grow sevenfold over the next decade. An element of the Space and Communications segment's long-term growth is tied to the growth in this global market. The Company's involvement in several ventures will provide opportunities for significant market penetration. Company programs that provide leverage in this market include the Global Positioning System (GPS) and the Airborne Warning and Control System (AWACS). This large-scale systems integration experience, coupled with alliances and company-funded initiatives, well positions the Company for the future in the information and communications marketplace.

The missile defense market offers Boeing the potential to become the leading U.S. systems contractor for ballistic and cruise missile defense, and also to make significant inroads in providing similar systems to Europe, Japan and other governments.

Strategic Investments for Long-Term Value

Over the past several years, the Company has made significant internal investments to meet future airline product requirements, to achieve production efficiencies, and to aggressively pursue new Space and Communications business opportunities. Although constraining earnings and requiring substantial resources in the near term, these investments are building long-term value by streamlining operations and positioning the Company to maintain its aerospace industry leadership.

New Product Development

The Company continually evaluates opportunities to improve current aircraft models, and assesses the marketplace to ensure that its family of commercial jet aircraft is well positioned to meet future requirements of the airline industry. The fundamental strategy is to maintain a broad product line that is responsive to changing market conditions by maximizing commonality among the Boeing family of commercial aircraft. Additionally, the Company is determined to continue to lead the industry in customer satisfaction by offering products with the highest standards of quality, safety, technical excellence, economic performance and in-service support.

New business opportunities being pursued or studied include both military and commercial applications. On the military side, the Company continues to assess potential applications using the Company's commercial aircraft, particularly the 767 and 737. In the commercial space arena, the Company is leading the Sea Launch team to offer highly automated commercial satellite launching from a seagoing launch platform. First launch is currently scheduled for March 1999.

The Company is investing in the development of the Delta IV family of expendable launch vehicles. These product offerings provide access to significant portions of the space launch market not previously available with the Delta II rocket. This investment, coupled with the U.S. Air Force Evolved Expendable Launch Vehicle program, positions the Company for potential market share gains.

In information and communications-related activities, the Company is evaluating several ventures with potential for hardware development. Satellite technology investments leverage ongoing government space programs. Company-sponsored research products are also available for use in commercial communication systems with a variety of customers.

Major Process Improvements

The Company remains strongly committed to becoming a world-class leader in all aspects of its business and to maintaining a strong focus on customer needs, including product capabilities, technology, in-service economics and product support. Major long-term productivity gains are being aggressively pursued, with substantial resources invested in education and training, restructuring of processes, new technology, and organizational realignment.

The 777, the Next-Generation 737, the Joint Strike Fighter, and other recent commercial and government developmental programs included early commitment of resources for integrated product teams, design interface with customer representatives, use of advanced three-dimensional digital product definition and digital preassembly computer applications, and increased use of automated manufacturing processes. Although these measures have required significant current investments, substantial long-term benefits are anticipated from reductions in design changes and rework, and improved quality of internally manufactured and supplier parts.

A major initiative to simplify and streamline our commercial aircraft configuration controls and production systems continues to be implemented. Nineteen parts fabrication factories are now running on the new manufacturing resource management systems, and sales teams and customers are now using a new tool that allows them to more efficiently configure aircraft to customer specifications. Based on current plans, Commercial Airplanes segment engineering and assembly factories will be fully implemented over the next two years.

The Military Aircraft and Missiles segment and the Space and Communications segment continue to aggressively pursue important process improvements through integrated product teams that provide cost-effective solutions and maintain technological superiority. Phantom Works, the advanced research and development organization of Boeing, focuses on improving the Company's competitive position through innovative technologies, improved processes and creation of new products.

The Company continues to assess potential opportunities for improved use and consolidation of facilities across all parts of the Company and to focus on those capabilities and processes that contribute to our core competencies resulting in a competitive advantage. Future decisions regarding facilities conversions or consolidations will be based on long-term business objectives. Within the Military Aircraft and Missiles and Space and Communications segments, major restructuring activities will be contingent on demonstration of cost savings for U.S. Government programs and the Company.

The Company is pursuing the means to significantly reduce new product development cost and flow time. Initiatives that have come out of this effort include the formation of the Creation Center, which is tied closely with Phantom Works, and other comparable efforts. Another initiative is the migration to platforms and platform teams modeled, to some degree, after Chrysler and other benchmarked companies. Other initiatives include design tool automation integrated with manufacturing, improved loads models, and decision support methodologies.

During 1998 the structure for realization of synergies across the Company was developed in the form of companywide Process Councils. These Councils consist of the leaders of key processes from each of the operating groups, as well as Phantom Works, and rapidly share best practices and combine efforts to meet needs across the Company. Process Councils have been established for Define, Manufacturing, Quality and Procurement processes.

Shareholder Value as Corporate Performance Measure

Management performance measures are designed to provide a good balance between short-term and long-term measures and financial and non-financial measures to align all decision processes and operating objectives to increase shareholder value over the long term.

Beginning in 1998, the Company implemented a new stock-award plan in place of stock options for executive compensation. Under this plan, rights to receive stock, referred to as Performance Shares, have been issued to plan participants. An increasing portion of the Performance Shares awarded will be convertible to shares of common stock as the stock price reaches and maintains certain threshold levels. These threshold stock price levels represent predetermined compound five-year growth rates relative to the stock price at the time the Performance Shares are granted. This plan is intended to increase executive management's focus on improving shareholder value.

During 1996, the Company established a self-sufficient, irrevocable trust, the "ShareValue Trust," designed to allow all employees to share in the results of increasing shareholder value over the long term. Funding of the ShareValue Trust totaled $1,150 million in 1996. (See Note 16 to the consolidated financial statements on pages 68 - 70.) Additional funding of $550 million was made effective January 1, 1998, because of the merger with McDonnell Douglas Corporation. Potential share appreciation distributions, which are solely the responsibility of the Trust, occur every two years. On June 30, 1998, the first investment period of the trust ended with a fund appreciation insufficient to generate a distribution to employees.

In 1998 the Company adopted the expense recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, which will principally affect the accounting for Performance Share awards, the ShareValue Trust plan, and stock options.

Segment Information

The Company is organized based on the products and services that it offers. Under this organizational structure, the Company operates in three principal areas: Commercial Airplanes, Military Aircraft and Missiles, and Space and Communications. *Commercial Airplanes* operations principally involve development, production and marketing of commercial jet aircraft and providing related support services, principally to the commercial airline industry worldwide. *Military Aircraft and Missiles* operations principally involve research, development, production, modification and support of the following products and related systems: military aircraft, both land-based and aircraft-carrier-based, including fighter, transport and attack aircraft with wide mission capability, and vertical/short takeoff and landing capability; helicopters and missiles. *Space and Communications* operations principally involve research, development, production, modification and support of the following products and related systems: space systems; missile defense systems; satellite launching vehicles; rocket engines; and information and battle management systems. Although some Military Aircraft and Missiles and Space and Communications products are contracted in the commercial environment, the primary customer is the U.S. Government. The *Customer and Commercial Financing/Other* segment is primarily engaged in the financing of commercial and private aircraft, commercial equipment, and real estate.

The Commercial Airplanes segment is subject to both operational and external business-environment risks. Operational risks that can seriously disrupt the Company's ability to make timely delivery of its commercial jet aircraft and meet its contractual commitments include execution of internal performance plans, product performance risks associated with regulatory certifications of the Company's commercial aircraft by the U.S. Government and foreign governments, other regulatory uncertainties, collective bargaining labor disputes, and performance issues with key suppliers and subcontractors. While the Company's principal operations are in the United States, Canada, and Australia, some key suppliers and subcontractors are located in Europe and Japan. External business-environment risks include adverse governmental export and import policies, factors that result in significant and prolonged disruption to air travel worldwide, and other factors that affect the economic viability of the commercial airline industry. Examples of factors relating to external business-environment risks include the volatility of aircraft fuel prices, global trade policies, worldwide political stability and economic growth, escalation trends inherent in pricing the Company's aircraft, and a competitive industry structure which results in market pressure to reduce product prices.

In addition to the foregoing risks associated with the Commercial Airplanes segment, the Military Aircraft and Missiles segment and the Space and Communications segment are subject to changing priorities or reductions in the U.S. Government defense and space budget, and termination of government contracts due to unilateral government action (termination for convenience) or failure to perform (termination for default). Civil, criminal or administrative proceedings involving fines, compensatory and treble damages, restitution, forfeiture and suspension or debarment from government contracts may result from violations of business and cost classification regulations on U.S. Government contracts.

As of December 31, 1998, the Company's principal collective bargaining agreements were with the International Association of Machinists and Aerospace Workers (IAM) representing 30% of employees (current agreements expiring September 1999, October 1999, and May 2001), Seattle Professional Engineering Employees Association (SPEEA) representing 12% of employees (current agreements expiring December 1999), the United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) representing 6% of employees (current agreements expiring June 1999, September 1999, and April 2000), and Southern California Professional Engineering Association (SCPEA) representing 2% of employees (current agreement expiring March 2001).

Sales by geographic area consisted of the following:

(Dollars in millions)

Year ended December 31,	1998	1997	1996
Asia, other than China	$14,065	$11,437	$ 8,470
China	1,572	1,265	951
Europe	8,646	7,237	4,198
Oceania	844	1,078	821
Africa	702	192	156
Western Hemisphere, other than the United States	701	228	466
	26,530	21,437	15,062
United States	29,624	24,363	20,391
Total sales	$56,154	$45,800	$35,453

Military Aircraft and Missiles segment and Space and Communications segment combined sales were approximately 16%, 19% and 29% of total sales in Europe for 1998, 1997 and 1996, respectively. Defense sales were approximately 19%, 19% and 22% of total sales in Asia, excluding China, for the same respective years. Exclusive of these amounts, Military Aircraft and Missiles segment and Space and Communications segment sales were principally to the U.S. Government.

The information in the following tables is derived directly from the segments' internal financial reporting used for corporate management purposes. The expenses, assets and liabilities attributable to corporate activity are not allocated to the operating segments. Less than 2% of operating assets are located outside of the United States.

Customer and Commercial Financing/Other segment revenues consist principally of interest from financing receivables and lease income from operating lease equipment, and segment earnings additionally reflect depreciation on leased equipment and expenses recorded against the valuation allowance presented in Note 8. No interest expense on debt is included in Customer and Commercial Financing/Other segment earnings.

Accounting differences principally result from differences in cost measurements under generally accepted accounting principals. Accounting differences include the following: the difference between pension costs recognized under SFAS No. 87, *Employers' Accounting for Pensions,* and under federal cost accounting standards, principally on a funding basis; the difference between retiree health care costs recognized under SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* and under federal cost accounting standards, principally on a cash basis; and amortization of costs capitalized in accordance with SFAS No. 34, *Capitalization of Interest Costs*.

The costs attributable to share-based plans are not allocated. Other unallocated costs include corporate costs not allocated to the operating segments, including goodwill amortization. Unallocated assets primarily consist of cash and short-term investments, prepaid pension expense, goodwill, deferred tax assets, and capitalized interest. Unallocated liabilities include various accrued employee compensation and benefit liabilities, including accrued retiree health care, taxes payable, and debentures and notes payable. Unallocated capital expenditures and depreciation relate primarily to shared services assets. Sales are not recorded for inter-segment transactions.

Losses from operations for 1997 include the impact of the valuation adjustment described in Note 3 on page 60.

In 1998 the Information, Space and Defense Systems Group of the Company was reorganized into two groups: the Military Aircraft and Missile Systems Group and the Space and Communications Group, which will be reported as separate business segments for 1998 and on. It is not practicable to determine the Military Aircraft and Missiles and Space and Communications breakout of the Information, Space and Defense Systems segment information for 1997 and 1996 presented below.

(Dollars in millions)	Net earnings (loss)			Revenues		
Year ended December 31,	1998	1997	1996	1998	1997	1996
Commercial Airplanes	$ 63	$(1,837)	$ 956	$35,545	$26,929	$19,916
Military Aircraft and Missiles	1,283			12,990		
Space and Communications	248			6,889		
Information, Space and Defense Systems	1,531	1,317	1,387	19,879	18,125	14,934
Customer and Commercial Financing/Other	367	381	329	730	746	603
Accounting differences	43	71	68			
Share-based plans	(153)	99	(133)			
Other unallocated costs	(284)	(287)	(122)			
Earnings (loss) from operations	1,567	(256)	2,485			
Other income, principally interest	283	428	388			
Interest and debt expense	(453)	(513)	(393)			
Earnings (loss) before taxes	1,397	(341)	2,480			
Income taxes (benefit)	277	(163)	662			
	$1,120	$ (178)	$1,818	$56,154	$45,800	$35,453

Segment information (continued)

(Dollars in millions)	Research and Development			Depreciation and Amortization		
Year ended December 31,	1998	1997	1996	1998	1997	1996
Commercial Airplanes	$1,021	$1,208	$1,156	$ 628	$ 570	$ 605
Military Aircraft and Missiles	304			208		
Space and Communications	570			142		
Information, Space and Defense Systems	874	716	477	350	365	299
Customer and Commercial Financing/Other				135	91	110
Unallocated				509	432	252
	$1,895	$1,924	$1,633	$1,622	$1,458	$1,266

	Assets at December 31			Liabilities at December 31		
	1998	1997	1996	1998	1997	1996
Commercial Airplanes	$12,568	$12,763	$12,484	$ 6,127	$ 6,917	$ 5,824
Military Aircraft and Missiles	3,560			743		
Space and Communications	3,032			1,335		
Information, Space and Defense Systems	6,592	6,597	6,785	2,078	2,379	2,361
Customer and Commercial Financing/Other	5,751	4,716	3,903	301	396	286
Unallocated	11,761	13,948	14,708	15,850	15,379	15,907
	$36,672	$38,024	$37,880	$24,356	$25,071	$24,378

	Capital expenditures, net			Contractual backlog at December 31 (unaudited)		
Year ended December 31,	1998	1997	1996	1998	1997	1996
Commercial Airplanes	$ 754	$ 531	$336	$ 86,057	$ 93,788	$ 86,151
Military Aircraft and Missiles	198			17,007		
Space and Communications	273			9,832		
Information, Space and Defense Systems	471	463	304	26,839	27,852	28,022
Customer and Commercial Financing/Other	1	1	1			
Unallocated	358	396	330			
	$1,584	$1,391	$971	$112,896	$121,640	$114,173

Consolidated Statements of Operations

(Dollars in millions except per share data)

Year ended December 31,	1998	1997	1996
Sales and other operating revenues	$56,154	$45,800	$35,453
Operating costs and expenses	50,546	40,644	29,383
General and administrative expense	1,993	2,187	1,819
Research and development expense	1,895	1,924	1,633
Share-based plans	153	(99)	133
Special charges		1,400	
Earnings (loss) from operations	1,567	(256)	2,485
Other income, principally interest	283	428	388
Interest and debt expense	(453)	(513)	(393)
Earnings (loss) before income taxes	1,397	(341)	2,480
Income taxes (benefit)	277	(163)	662
Net earnings (loss)	$ 1,120	$ (178)	$ 1,818
Earnings (loss) per share			
Basic	$ 1.16	$ (.18)	$ 1.88
Diluted	$ 1.15	$ (.18)	$ 1.85
Cash dividends per share	$ .56	$ .56	$ .55

See notes to consolidated financial statements.

Consolidated Statements of Financial Position

(Dollars in millions except per share data)

December 31,	1998	1997
Assets		
Cash and cash equivalents	$ 2,183	$ 4,420
Short-term investments	279	729
Accounts receivable	3,288	3,121
Current portion of customer and commercial financing	781	261
Deferred income taxes	1,495	1,765
Inventories, net of advances and progress billings	8,349	8,967
Total current assets	16,375	19,263
Customer and commercial financing	4,930	4,339
Property, plant and equipment, net	8,589	8,391
Deferred income taxes	411	15
Goodwill	2,312	2,395
Prepaid pension expense	3,513	3,271
Other assets	542	350
	$36,672	$38,024
Liabilities and Shareholders' Equity		
Accounts payable and other liabilities	$10,733	$11,548
Advances in excess of related costs	1,251	1,575
Income taxes payable	569	298
Short-term debt and current portion of long-term debt	869	731
Total current liabilities	13,422	14,152
Accrued retiree health care	4,831	4,796
Long-term debt	6,103	6,123
Shareholders' equity:		
Common shares, par value $5.00 – 1,200,000,000 shares authorized; Shares issued – 1,011,870,159 and 1,000,029,538	5,059	5,000
Other equity accounts	7,257	7,953
Total shareholders' equity	12,316	12,953
	$36,672	$38,024

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Dollars in millions)

Year ended December 31,	1998	1997	1996
Cash flows – operating activities:			
Net earnings (loss)	$ 1,120	$ (178)	$ 1,818
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Special charges		1,400	
Share-based plans	153	(99)	133
Depreciation	1,517	1,354	1,241
Amortization of goodwill and intangibles	105	104	25
Changes in assets and liabilities –			
Short-term investments	450	154	(874)
Accounts receivable	(167)	(251)	182
Inventories, net of advances and progress billings	618	(1,008)	306
Accounts payable and other liabilities	(806)	1,490	514
Advances in excess of related costs	(324)	(139)	441
Income taxes payable and deferred	145	(451)	(55)
Other	(479)	(272)	(246)
Accrued retiree health care	35	(4)	126
Net cash provided by operating activities	2,367	2,100	3,611
Cash flows – investing activities:			
Customer and commercial financing – additions	(2,660)	(1,889)	(1,212)
Customer and commercial financing – reductions	1,418	1,030	1,482
Property, plant and equipment, net additions	(1,584)	(1,391)	(971)
Other			15
Net cash used by investing activities	(2,826)	(2,250)	(686)
Cash flows – financing activities:			
New borrowings	811	232	1,051
Debt repayments	(693)	(867)	(1,160)
ShareValue Trust			(891)
Common shares purchased	(1,397)	(141)	(718)
Common shares issued		268	
Stock options exercised, other	65	166	215
Dividends paid	(564)	(557)	(480)
Net cash used by financing activities	(1,778)	(899)	(1,983)
Net increase (decrease) in cash and cash equivalents	(2,237)	(1,049)	942
Cash and cash equivalents at beginning of year	4,420	5,469	4,527
Cash and cash equivalents at end of year	$ 2,183	$ 4,420	$ 5,469

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(Dollars in millions / Shares in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital
Balance December 31, 1995	989,255	$4,946	$ –
Shares repurchased	(19,055)	(95)	(383)
Shares issued for acquisition of Rockwell aerospace and defense business	18,309	92	784
Shares issued for ShareValue Trust	3,466	17	209
Shares acquired for original ShareValue Trust funding			
Shares issued for incentive stock plans	1,373	7	
Treasury shares transferred to ShareValue Trust			
Treasury shares issued for incentive stock plans, net			27
Tax benefit related to incentive stock plans			58
Stock appreciation rights expired or surrendered			9
ShareValue Trust market value adjustment			216
Shares acquired from dividend reinvestment			
Accrued distributable appreciation			
New issuances – unearned compensation			
Amortization and forfeitures – unearned compensation			
Net earnings			
Cash dividends declared			
Balance December 31, 1996	993,348	$4,967	$ 920
Shares issued	4,550	23	245
Shares issued for incentive stock plans	2,132	10	
Treasury shares acquired			
Treasury shares issued for incentive stock plans, net			(20)
Tax benefit related to incentive stock plans			41
Stock appreciation rights expired or surrendered			6
ShareValue Trust market value adjustment			(102)
Shares transferred from ShareValue Trust			
Shares acquired from dividend reinvestment			
Accrued distributable appreciation			
New issuances – unearned compensation			
Amortization and forfeitures – unearned compensation			
Net loss			
Cash dividends declared			
Balance December 31, 1997	1,000,030	$5,000	$1,090
Shares issued for ShareValue Trust	11,253	56	494
Shares issued for incentive stock plans	587	3	
Share-based compensation			153
Treasury shares acquired			
Treasury shares issued for incentive stock plans, net			(43)
Tax benefit related to incentive stock plans			18
Stock appreciation rights expired or surrendered			5
ShareValue Trust market value adjustment			(570)
Shares acquired from dividend reinvestment			
Amortization and forfeitures – unearned compensation			
Net earnings			
Cash dividends declared			
Minimum pension liability adjustment, net of tax of $14			
Balance December 31, 1998	1,011,870	$5,059	$1,147

See notes to consolidated financial statements.

	Treasury Stock		ShareValue Trust			Accumulated Other Comprehensive		
	Shares	Amount	Shares	Amount	Unearned Compensation	Income	Retained Earnings	Comprehensive Income
	10,608	$ (209)		$ –	$(18)	$ –	$7,808	
							(233)	
			26,032	(1,171)				
	(2,964)	58						
	(7,614)	150						
				(216)				
			88	(4)				
				133				
					(20)			
					16			
							1,818	$1,818
							(497)	
	30	$ (1)	26,120	$(1,258)	$(22)	$ –	$8,896	$1,818
	2,710	(141)						
	(2,580)	133						
				102				
	5		(5)					
			270					
				(99)				
					(29)			
					31			
							(178)	$ (178)
							(571)	
	165	$ (9)	26,385	$(1,255)	$(20)	$ –	$8,147	$ (178)
			11,253	(550)				
	37,473	(1,397)						
	(1,792)	85						
				570				
			529					
					3			
							1,120	$1,120
							(561)	
						(23)		(23)
	35,846	$(1,321)	38,167	$(1,235)	$(17)	$(23)	$8,706	$1,097

Years ended December 31, 1998, 1997 and 1996
(Dollars in millions except per share data)

Note 1
Summary of Significant Accounting Policies

Principles of consolidation
The consolidated financial statements include the accounts of all majority-owned subsidiaries. Investments in joint ventures in which the Company does not have control, but has the ability to exercise significant influence over the operating and financial policies, are accounted for under the equity method. Accordingly, the Company's share of net earnings and losses from these ventures is included in the consolidated statements of operations. Intercompany profits, transactions and balances have been eliminated in consolidation.

Use of estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions and estimates that directly affect the amounts reported in the consolidated financial statements. Significant estimates for which changes in the near term are considered reasonably possible and that may have a material impact on the financial statements are addressed in these notes to the consolidated financial statements.

Sales and other operating revenues
Sales under fixed-price-type contracts are generally recognized as deliveries are made or at the completion of contractual billing milestones. For certain fixed-price contracts that require substantial performance over an extended period before deliveries begin, sales are recorded based upon attainment of scheduled performance milestones. Sales under cost-reimbursement contracts are recorded as costs are incurred. Certain U.S. Government contracts contain profit incentives based upon performance relative to predetermined targets. Incentives based on cost performance are recorded currently, and other incentives and fee awards are recorded when the amounts can be reasonably estimated. Commercial aircraft sales are recorded as deliveries are made unless transfer of risk and rewards of ownership is not sufficient. Income associated with customer financing activities is included in sales and other operating revenues.

Contract and program accounting
In the Military Aircraft and Missiles segment and Space and Communications segment, operations principally consist of performing work under contract, predominantly for the U.S. Government and foreign governments. Cost of sales for such contracts is determined based on the estimated average total contract cost and revenue.

Commercial aircraft programs are planned, committed and facilitized based on long-term delivery forecasts, normally for quantities in excess of contractually firm orders. Cost of sales for the 737, 747, 757, 767 and 777 commercial aircraft programs is determined under the program method of accounting based on estimated average total cost and revenue for the current program quantity. The program method of accounting effectively amortizes or averages tooling and special equipment costs, as well as unit production costs, over the program quantity. Because of the higher unit production costs experienced at the beginning of a new program and the substantial investment required for initial tooling and special equipment, new commercial jet aircraft programs normally have lower operating profit margins than established programs. The initial program quantities for the 777 program and the 737-600/700/800/900 (Next-Generation 737) programs had been established at 400 units, the same initial program quantity as used for the 747, 757 and 767 programs. Deliveries for the 777 program began in 1995, and deliveries for the Next-Generation 737 program began in 1997. The estimated program average costs and revenues are reviewed and reassessed quarterly, and changes in estimates are recognized over current and future deliveries constituting the program quantity. Cost of sales for the MD-80, MD-90 and MD-11 aircraft programs is determined on a specific-unit cost method.

To the extent that inventoriable costs are expected to exceed the total estimated sales price, charges are made to current earnings to reduce inventoried costs to estimated realizable value.

Inventories
Inventoried costs on commercial aircraft programs and long-term contracts include direct engineering, production and tooling costs, and applicable overhead, not in excess of estimated realizable value. In accordance with industry practice, inventoried costs include amounts relating to programs and contracts with long production cycles, a portion of which is not expected to be realized within one year. Commercial spare parts and general stock materials are stated at average cost not in excess of realizable value.

Share-based plans
In 1998 the Company adopted the expense recognition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*. The Company values stock options issued based upon an option-pricing model and recognizes this value as an expense over the period in which the options vest. Potential distribution from the ShareValue Trust, described in Note 16, have been valued based upon an option-pricing model, with the related expense recognized over the life of the trust. Share-based expense associated with Performance Shares described in Note 16 is determined based on the market value of the Company's stock at the time of the award applied to the maximum number of shares contingently issuable based on stock price, and is amortized over a five-year award period. Performance Shares were first issued in 1998. Prior to 1998, the Company recognized no expense for stock options, and ShareValue Trust expense was determined based on the change in the distributable market value of the trust. Share-based plans expenses for stock options, the ShareValue Trust, Performance Shares and other share-based awards are offset by a credit to additional paid-in capital.

Interest expense
Interest and debt expense is presented net of amounts capitalized. Interest expense is subject to capitalization as a construction-period cost of property, plant and equipment and of commercial program tooling.

Income taxes
Federal, state and foreign income taxes are computed at current tax rates, less tax credits. Taxes are adjusted both for items that do not have tax consequences and for the cumulative effect of any changes in tax rates from those previously used to determine deferred tax assets or liabilities. Tax provisions include amounts that are currently payable, plus changes in deferred tax assets and liabilities that arise because of temporary differences between the time when items of income and expense are recognized for financial reporting and income tax purposes.

Postretirement benefits
The Company's funding policy for pension plans is to contribute, at a minimum, the statutorily required amount to an irrevocable trust. Benefits under the plans are generally based on age at retirement, the employee's annual earnings indexed at the U.S. Treasury 30-year bond rate, and years of service. The actuarial cost method used in determining the net periodic pension cost is the projected unit credit method.

Cash and cash equivalents
Cash and cash equivalents consist of highly liquid instruments, such as certificates of deposit, time deposits, treasury notes and other money market instruments, which generally have maturities of less than three months.

Short-term investments
Short-term investments, consisting principally of U.S. Government Treasury obligations, are classified as trading securities with unrealized gains and losses reflected in other income.

Property, plant and equipment
Property, plant and equipment are recorded at cost, including applicable construction-period interest, and depreciated principally over the following estimated useful lives: new buildings and land improvements, from 20 to 45 years; and machinery and equipment, from 3 to 13 years. The principal methods of depreciation are as follows: buildings and land improvements, 150% declining balance; and machinery and equipment, sum-of-the-years' digits.

Goodwill
Goodwill, representing the excess of acquisition costs over the fair value of net assets of businesses purchased, is being amortized by the straight-line method over 30 years. Recoverability of the unamortized goodwill balance is based upon assessment of related operational cash flows.

Note 2
Mergers and Acquisitions

Merger with McDonnell Douglas Corporation

On August 1, 1997, McDonnell Douglas Corporation merged with the Company through a stock-for-stock exchange in which 1.3 shares of Company stock were issued for each share of McDonnell Douglas stock outstanding. The Company issued 277.3 million shares in connection with the merger. The merger is accounted for as a pooling of interests. Accordingly, except for adjustments to reflect conformed accounting policies, the historical results of operations of the two companies have been combined, and no acquisition revaluation or goodwill was recorded.

The merger was subject to approval by the United States Federal Trade Commission and the European Commission. Future requirements or obligations associated with obtaining these approvals are not expected to have a material impact on future operations or liquidity of the Company.

Acquisition of Rockwell aerospace and defense business

On December 6, 1996, the Company acquired Rockwell's aerospace and defense business by issuing 9.2 million shares of common stock valued at $875 and assuming debt valued at $2,180. This transaction has been accounted for under the purchase method. The assets and liabilities have been recorded at fair value with excess purchase price recorded as goodwill.

Note 3
Special Charges - Douglas Products Valuation Adjustment

In the fourth quarter of 1997, the Company completed an assessment of the financial impact of its post-merger strategy decisions related to its McDonnell Douglas Corporation commercial aircraft product lines and recorded a special charge of $1,400 relative to these decisions. The charge principally represents an inventory valuation adjustment based on post-merger assessments of the market conditions and related program decisions and commitments. Also included in the charge were valuation adjustments in connection with customer financing assets. The applicable programs currently in production are the MD-11 trijet and the MD-80 and MD-90 twinjets. Additionally, the MD-95 twinjet, now referred to as the 717 model program, is currently in development, with first delivery scheduled for 1999. The MD-80 and MD-90 twinjets and the MD-11 trijet will continue to be produced through 2000.

Note 4
Earnings from Joint Ventures

Operating costs and expenses in the Consolidated Statements of Operations include costs of $127, $102 and $53 for the years ending December 31, 1998, 1997 and 1996, respectively, representing the Company's share of losses from joint venture arrangements in the developmental stages accounted for under the equity method. The Company's principal joint venture arrangement in the developmental stages is a 40% partnership in the Sea Launch program, a commercial satellite launch venture with Norwegian, Russian and Ukrainian partners.

Additionally, the Company recognized income of $60, $59 and $2 for the years ending December 31, 1998, 1997 and 1996, respectively, attributable to non-developmental joint venture arrangements. The Company's 50% partnership with Lockheed Martin in United Space Alliance is the principal non-developmental joint venture arrangement. United Space Alliance is responsible for all ground processing of the Space Shuttle fleet and for space-related operations with the U.S. Air Force.

Note 5
Earnings per Share

The weighted average number of shares outstanding (in millions) used to compute basic earnings per share were 966.9, 970.1 and 968.7 for the years ended December 31, 1998, 1997 and 1996, respectively. The weighted average number of shares outstanding (in millions) used to compute diluted earnings per share were 976.7, 970.1 and 981.9 for the same respective years. Basic earnings per share are calculated based on the weighted average number of shares outstanding, excluding treasury shares and the outstanding shares held by the ShareValue Trust. Diluted earnings per share are calculated based on that same number of shares plus additional dilutive shares representing stock distributable under stock option plans computed using the treasury stock method plus contingently issuable shares from other share-based plans. Because 1997 results reflected a net loss from continuing operations, both basic and diluted earnings per share were calculated based on the same weighted average number of shares for that year.

Note 6
Accounts Receivable

Accounts receivable at December 31 consisted of the following:

	1998	1997
U.S. Government contracts	$2,058	$2,053
Other	1,230	1,068
	$3,288	$3,121

Accounts receivable included the following as of December 31, 1998 and 1997, respectively: amounts not currently billable of $381 and $587 relating primarily to sales values recorded upon attainment of performance milestones that differ from contractual billing milestones and withholds on U.S. Government contracts ($109 and $161 not expected to be collected within one year); $93 and $341 relating to claims and other amounts on U.S. Government contracts subject to future settlement ($66 and $333 not expected to be collected within one year); and $48 and $62 of other receivables not expected to be collected within one year.

Note 7
Inventory

Inventories at December 31 consisted of the following:

	1998	1997
Commercial aircraft programs and long-term contracts in progress	$ 24,812	$ 26,566
Commercial spare parts, general stock materials and other	2,162	1,869
	26,974	28,435
Less advances and progress billings	(18,625)	(19,468)
	$ 8,349	$ 8,967

As of December 31, 1998, there were no significant excess deferred production costs (inventory production costs incurred on in-process and delivered units in excess of the estimated average cost of such units determined as described in Note 1) or unamortized tooling costs not recoverable from existing firm orders for commercial programs other than the 777 and the Next-Generation 737 programs. The program quantity for the 777 and the Next-Generation 737 programs for determining cost of sales based on estimated average total cost (including inventory production costs and tooling) and revenue was initially established at 400 units. In 1998 the accounting quantity for the Next-Generation 737 program was extended beyond the initial program quantity. The current accounting quantity for the Next-Generation 737 program is 1,200 units.

Inventory costs at December 31, 1998, included unamortized tooling of $2,022 and $760 relating to the 777 and Next-Generation 737 programs, and excess deferred production costs of $1,654 and $329 relating to the 777 and Next-Generation 737 programs. Inventory costs at December 31, 1997, included unamortized tooling of $2,678 and $809 relating to the 777 and Next-Generation 737 programs, and excess deferred production costs of $2,384 relating to the 777 program. Firm backlog for both the 777 and Next-Generation 737 programs is sufficient to recover all significant amounts of excess deferred production costs as of December 31, 1998; however, such deferred costs are recognized over the current program accounting quantity in effect at the date of reporting.

Interest capitalized as construction-period tooling costs amounted to $20, $33 and $30 in 1998, 1997 and 1996, respectively.

As of December 31, 1998 and 1997, inventory balances included $231 subject to claims or other uncertainties primarily relating to the A-12 program. See Note 21.

The estimates underlying the average costs of deliveries reflected in the inventory valuations may differ materially from amounts eventually realized for the reasons outlined in Note 22.

Note 8
Customer and Commercial Financing

Customer and commercial financing at December 31 consisted of the following:

	1998	1997
Aircraft financing		
Notes receivable	$ 859	$ 647
Investment in sales-type/ financing leases	1,325	1,517
Operating lease equipment, at cost, less accumulated depreciation of $195 and $230	2,201	1,220
Commercial equipment financing		
Notes receivable	534	317
Investment in sales-type/ financing leases	548	536
Operating lease equipment, at cost, less accumulated depreciation of $129 and $120	510	571
Less valuation allowance	(266)	(208)
	$5,711	$4,600

Customer and commercial financing assets that are leased by the Company under capital leases and have been subleased to others totaled $333 and $342 as of December 31, 1998 and 1997. Commercial equipment financing under operating lease consists principally of real property, highway vehicles, machine tools and production equipment. Commercial equipment financing also includes amounts attributable to regional aircraft, principally with fewer than 80 seats.

Scheduled payments on customer and commercial financing are as follows:

Year	Principal Payments on Notes Receivable	Sales-type/ Financing Lease Payments Receivable	Operating Lease Payments Receivable
1999	$ 346	$ 522	$ 240
2000	280	225	161
2001	92	216	146
2002	126	187	136
2003	87	175	132
Beyond 2003	462	1,037	1,107

The components of investment in sales-type/financing leases at December 31 were as follows:

	1998	1997
Minimum lease payments receivable	$2,362	$ 2,754
Estimated residual value of leased assets	438	519
Unearned income	(927)	(1,220)
	$1,873	$ 2,053

The Company has entered into interest rate swaps with third-party investors whereby the interest rate terms differ from the terms in the original receivable. These interest rate swaps related to $62 of customer financing receivables as of December 31, 1998. Interest rate swaps on financing receivables are settled on the same dates interest is due on the underlying receivables and principally swap the interest rate from a fixed to a variable rate.

Interest rates on fixed-rate notes ranged from 5.06% to 12.43%, and effective interest rates on variable-rate notes ranged from 0.03% to 4.50% above the London Interbank Offered Rate (LIBOR).

Sales and other operating revenues included interest income associated with notes receivable and sales-type/financing leases of $205, $217 and $195 for 1998, 1997 and 1996, respectively.

Financing for aircraft is collateralized by security in the related asset, and historically the Company has not experienced a problem in accessing such collateral. The operating lease aircraft category includes new and used jet and commuter aircraft, spare engines and spare parts.

The valuation allowance is subject to change depending on estimates of collectability and realizability of the customer financing balances.

Note 9
Property, Plant and Equipment

Property, plant and equipment at December 31 consisted of the following:

	1998	1997
Land	$ 499	$ 530
Buildings	8,244	8,133
Machinery and equipment	10,521	9,940
Construction in progress	977	691
	20,241	19,294
Less accumulated depreciation	(11,652)	(10,903)
	$ 8,589	$ 8,391

Depreciation expense was $1,386, $1,266 and $1,132 for 1998, 1997 and 1996, respectively. Interest capitalized as construction-period property, plant and equipment costs amounted to $45, $28 and $28 in 1998, 1997 and 1996, respectively.

Rental expense for leased properties was $349, $308 and $242 for 1998, 1997 and 1996, respectively. These expenses, substantially all minimum rentals, are net of sublease income. Minimum rental payments under operating leases with initial or remaining terms of one year or more aggregated $737 at December 31, 1998. Payments, net of sublease amounts, due during the next five years are as follows:

1999	2000	2001	2002	2003
$192	$148	$100	$78	$66

Note 10
Goodwill

As of December 31, goodwill associated with the December 1996 acquisition of Rockwell's aerospace and defense business units consisted of the following:

	1998	1997
Goodwill	$2,486	$2,486
Less cumulative amortization	(174)	(91)
	$2,312	$2,395

Note 11
Income Taxes

The provision for taxes on income consisted of the following:

Year ended December 31,	1998	1997	1996
U.S. Federal			
Taxes paid or currently payable	$ 370	$ 103	$689
Change in deferred taxes	(124)	(253)	(78)
	246	(150)	611
State			
Taxes paid or currently payable	33	9	57
Change in deferred taxes	(2)	(22)	(6)
	31	(13)	51
Income tax provision (benefit)	$ 277	$(163)	$662

The following is a reconciliation of the income tax provision (benefit) computed by applying the U.S. federal statutory rate of 35 percent to the recorded income tax provision:

	1998	1997	1996
U.S. federal statutory tax	$ 489	$(119)	$ 868
Foreign Sales Corporation tax benefit	(130)	(79)	(110)
Research benefit	(70)	(8)	(4)
Prior years' research benefit settlement	(57)		
Prior years' investment tax credit			(95)
Prior years' tax adjustment	(8)	(23)	(30)
Nondeductibility of goodwill and merger costs	31	71	2
State income tax provision, net of effect on U.S. federal tax	31	(9)	31
Other provision adjustments	(9)	4	
Income tax provision (benefit)	$ 277	$(163)	$ 662

The deferred tax assets, net of deferred tax liabilities, resulted from temporary tax differences associated with the following:

Year ended December 31,	1998	1997	1996
Inventory and long-term contract methods of income recognition	$ 800	$ 1,186	$ 999
Pension benefit accruals	(1,179)	(1,152)	(1,026)
Retiree health care accruals	1,771	1,806	1,712
Other employee benefits accruals	415	318	339
Customer and commercial financing	99	(378)	(519)
Net deferred tax assets	$ 1,906	$ 1,780	$ 1,505

The temporary tax differences associated with inventory and long-term contract methods of income recognition encompass related costing differences, including timing and depreciation differences.

Valuation allowances were not required due to the nature of and circumstances associated with the temporary tax differences.

Income taxes have been settled with the Internal Revenue Service (IRS) for all years through 1978, and IRS examinations have been completed through 1987. In connection with these examinations, the Company disagrees with IRS proposed adjustments, and the years 1979 through 1987 are in litigation. The Company has also filed refund claims for additional research and development tax credits, primarily in relation to its fixed-price government development programs. Successful resolutions will result in increased income to the Company.

In December 1996, The Boeing Company filed suit in the U.S. District Court for the Western District of Washington for the refund of over $400 in federal income taxes and related interest. The suit challenged the IRS method of allocating research and development costs for the purpose of determining tax incentive benefits on export sales through the Company's Domestic International Sales Corporation (DISC) and its Foreign Sales Corporation (FSC) for the years 1979 through 1987. In September 1998, the District Court granted the Company's motion for summary judgment. The U.S. Department of Justice has appealed this decision. If the Company were to prevail, the refund would include interest computed to the payment date. The issue could affect tax computations for subsequent years; however, the financial impact would depend on the final resolution of audits for these years.

The Company believes adequate provision has been made for all open years.

Income tax payments were $85, $219 and $648 in 1998, 1997 and 1996, respectively.

Note 12
Accounts Payable and Other Liabilities

Accounts payable and other liabilities at December 31 consisted of the following:

	1998	1997
Accounts payable	$ 5,263	$ 5,609
Accrued compensation and employee benefit costs	2,326	2,154
Lease and other deposits	539	819
Other	2,605	2,966
	$10,733	$11,548

Note 13
Debt

Debt at December 31 consisted of the following:

	1998	1997
Unsecured debentures and notes:		
7 5/8% due Feb. 17, 1998	$ –	$ 301
8 7/8% due Sep. 15, 1999	304	311
8.25% due Jul. 1, 2000	200	200
8 3/8% due Feb. 15, 2001	180	182
7.565% due Mar. 30, 2002	54	
9.25% due Apr. 1, 2002	120	120
6 3/4% due Sep. 15, 2002	298	297
6.35% due Jun. 15, 2003	299	299
7 7/8% due Feb. 15, 2005	208	209
6 5/8% due Jun. 1, 2005	292	291
6.875% due Nov. 1, 2006	248	248
8 1/10% due Nov. 15, 2006	175	175
9.75% due Apr. 1, 2012	348	348
8 3/4% due Aug. 15, 2021	398	398
7.95% due Aug. 15, 2024	300	300
7 1/4% due Jun. 15, 2025	247	247
8 3/4% due Sep. 15, 2031	248	248
8 5/8% due Nov. 15, 2031	173	173
6 5/8% due Feb. 15, 2038	300	
7.50% due Aug. 15, 2042	100	100
7 7/8% due Apr. 15, 2043	173	173
6 7/8% due Oct. 15, 2043	125	125
Senior debt securities		
6.0% – 9.4%, due through 2011	55	148
Senior medium-term notes,		
5.5% – 13.6%, due through 2017	1,320	1,129
Subordinated medium-term notes,		
5.5% – 8.3%, due through 2004	55	70
Capital lease obligations,		
due through 2008	433	500
Other notes	319	262
	$6,972	$6,854

The $300 debentures due August 15, 2024, are redeemable at the holder's option on August 15, 2012. All other debentures and notes are not redeemable prior to maturity. Maturities of long-term debt for the next five years are as follows:

1999	2000	2001	2002	2003
$650	$429	$442	$684	$519

The Company has $2,400 currently available under credit line agreements with a group of commercial banks. The Company has complied with the restrictive covenants contained in various debt agreements.

During the fourth quarter of 1997, Boeing Capital Corporation (BCC), a corporation wholly owned by the Company, filed a shelf registration statement with the Securities and Exchange Commission for up to $1,200 aggregate principal amount of debt securities. As of December 31, 1998, $571 has been drawn on this shelf registration. In addition, BCC has $240 available but unused under a credit line agreement with a group of commercial banks. At December 31, 1998 and 1997, borrowings under commercial paper and uncommitted short-term bank facilities totaling $172 and $98 were supported by available unused commitments under the revolving credit agreement. Total consolidated debt attributable to BCC amounted to $1,971 and $1,798 as of December 31, 1998 and 1997.

The $100 notes due August 15, 2042, with a stated rate of 7.50% were issued to a private investor in connection with an interest rate swap arrangement that resulted in an effective synthetic rate of 7.865%. The swap arrangement results in semi-annual interest rate payments at LIBOR, and is scheduled to settle when the underlying note matures. Additionally, BCC has interest rate swaps totaling $350 relating to capital lease obligations and $80 relating to medium-term notes. The swaps attributable to capital lease obligations have a receive rate that is floating based on LIBOR, and a pay rate that is fixed. Of the swaps attributable to medium-term notes, $50 have a receive rate that is fixed, and a pay rate that is floating based on LIBOR; and $30 have a receive rate that is floating based on LIBOR, and a pay rate that is fixed. Interest rate swaps on these capital lease obligations and medium-term notes are settled on the same dates interest is due on the underlying obligations.

BCC has available approximately $60 in uncommitted, short-term bank credit facilities whereby the Company may borrow, at interest rates which are negotiated at the time of the borrowings, upon such terms as the Company and the banks may mutually agree. At December 31, 1998 and 1997, borrowings on these credit facilities totaled $50 and $18.

Total debt interest, including amounts capitalized, was $520, $573 and $450 for the years ended December 31, 1998, 1997 and 1996, and interest payments were $514, $588 and $436, respectively.

Note 14
Postretirement Plans

The following table reconciles the funded status of both pensions and other postretirement benefits (OPB), principally retiree health care, to the balance on the Consolidated Statements of Financial Position. Plan assets consist primarily of equities, fixed income obligations and cash equivalents. Boeing stock represents less than 1% of the fair value of plan assets. The pension benefit obligations and plan assets shown in the table are valued as of September 30.

	Pensions		Other Postretirement Benefits	
	1998	1997	1998	1997
Benefit obligation				
Beginning balance	$25,845	$24,212	$ 4,008	$ 3,742
Service cost	573	506	81	86
Interest cost	1,793	1,727	271	274
Plan participants' contributions	1	1		
Amendments	489	4		
Actuarial loss	1,862	815	330	143
Benefits paid	(1,676)	(1,420)	(272)	(237)
Ending balance	$28,887	$25,845	$ 4,418	$ 4,008
Plan assets – fair value				
Beginning balance	$33,119	$28,259		
Actual return on plan assets	1,146	5,932		
Company contributions	18	345		
Plan participants' contributions	1	1		
Benefits paid	(1,659)	(1,409)		
Exchange rate adjustment	(16)	(9)		
Ending balance	$32,609	$33,119		
Reconciliation of funded status to net amount recognized				
Funded status – plan assets in excess of (less than) benefit obligation	$ 3,722	$ 7,274	$(4,418)	$(4,008)
Unrecognized net actuarial gain	(1,699)	(4,938)	(21)	(352)
Unrecognized prior service costs	1,491	1,066	(392)	(436)
Unrecognized net transition asset	(241)	(331)		
Net amount recognized	$ 3,273	$ 3,071	$(4,831)	$(4,796)
Amount recognized in statement of financial position				
Prepaid benefit cost	$ 3,513	$ 3,271		
Intangible asset	105			
Accumulated other comprehensive income	37			
Accrued benefit liability	(382)	(200)	$(4,831)	$(4,796)
Net amount recognized	$ 3,273	$ 3,071	$(4,831)	$(4,796)

Components of net periodic benefit costs and other supplemental information were as follows:

Year ended December 31,	1998	1997	1996
Components of net periodic benefit cost - Pensions			
Service cost	$ 573	$ 506	$ 429
Interest cost	1,793	1,727	1,161
Expected return on plan assets	(2,507)	(2,163)	(1,397)
Amortization of transition asset	(86)	(86)	
Amortization of prior service cost	101	101	
Recognized net actuarial loss (gain)	5	(20)	2
Net periodic benefit cost (income)	$ (121)	$ 65	$ 195

Year ended December 31,	1998	1997	1996
Components of net periodic benefit cost - OPB			
Service cost	$ 81	$ 86	$ 97
Interest cost	271	274	219
Amortization of prior service cost	(45)	(45)	(45)
Recognized net actuarial loss (gain)	(16)	(22)	17
Net periodic benefit cost	$291	$293	$288

Weighted average assumptions as of December 31,	1998	1997	1996
Discount rate: pensions and OPB	6.50%	7.00%	7.36%
Expected return on plan assets	8.75%	8.33%	8.46%
Rate of compensation increase	4.50%	5.00%	5.07%

Effect of 1% change in assumed health care costs	1998	1997	1996
Effect on total of service and interest cost			
1% increase	$ 44	$ 43	$ 41
1% decrease	(39)	(38)	(36)
Effect on postretirement benefit obligation			
1% increase	452	410	377
1% decrease	(406)	(368)	(336)

The Company has various noncontributory plans covering substantially all employees. All major pension plans are funded and have plan assets that exceed accumulated benefit obligations.

Certain of the pension plans provide that, in the event there is a change in control of the Company which is not approved by the Board of Directors and the plans are terminated within five years thereafter, the assets in the plans first will be used to provide the level of retirement benefits required by the Employee Retirement Income Security Act, and then any surplus will be used to fund a trust to continue present and future payments under the postretirement medical and life insurance benefits in the Company's group insurance programs.

The Company has an agreement with the Government with respect to certain of the Company pension plans. Under the agreement, should the Company terminate any of the plans under conditions in which the plan's assets exceed that plan's obligations, the Government will be entitled to a fair allocation of any of the plan's assets based on plan contributions that were reimbursed under Government contracts. Also, the Revenue Reconciliation Act of 1990 imposes a 20% nondeductible excise tax on the gross assets reverted if the Company establishes a qualified replacement plan or amends the terminating plan to provide for benefit increases; otherwise, a 50% tax is applied. Any net amount retained by the Company is treated as taxable income.

Effective January 1, 1999, two new pension plans were created for the salaried, non-represented employees of pre-merger Boeing and McDonnell Douglas. Assets and liabilities associated with benefits earned through 1998 were transferred to the new plans, which provide substantially the same benefit levels as the prior plans. The change in projected benefit obligations as a result of establishing the two plans is $420, which is reflected in the "amendments" line in the table above that reconciles the benefit obligation balance.

The Company has certain unfunded and partially funded plans with a projected benefit obligation of $688 and $387; plan assets of $243 and $56; and unrecognized prior services costs and actuarial losses of $240 and $131 as of December 31, 1998 and 1997. The net provision for these plans was $52 and $49 for 1998 and 1997.

The principal defined contribution plans are the Company-sponsored 401(k) plans and a funded plan for unused sick leave. The provision for these defined contribution plans in 1998, 1997 and 1996 was $417, $361 and $287, respectively.

The Company's postretirement benefits other than pensions consist principally of health care coverage for eligible retirees and qualifying dependents and, to a lesser extent, life insurance for certain groups of retirees.

Retiree health care is provided principally until age 65 for approximately half those retirees who are eligible for health care coverage. Certain employee groups, including employees covered by most United Auto Workers bargaining agreements, are provided lifetime health care coverage.

Benefit costs were calculated based on assumed cost growth for retiree health care costs of a 6.9% annual rate for 1998, decreasing to a 4.5% annual growth rate by 2010.

Note 15
Shareholders' Equity

In August 1998, the Board of Directors approved a resolution authorizing management to repurchase up to 15% of the Company's issued and outstanding stock as of June 30, 1998 (excluding shares held by the ShareValue Trust), which would amount to 145,899,000 shares. As of December 31, 1998, 35,195,000 shares had been repurchased pursuant to this resolution.

Twenty million shares of authorized preferred stock remain unissued.

Note 16
Share-Based Plans

The Share-based plans expense caption on the Consolidated Statements of Operations represents the total expense recognized for all company plans that are payable only in stock. These plans are described below.

In 1998 the Company adopted the expense recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*. Had the Company not adopted SFAS No. 123, 1998 net earnings would have been $1,229, and basic and diluted earnings per share would have been $1.27 and $1.26. The following table compares 1997 and 1996 results as reported to the results had the Company adopted the expense recognition provision of SFAS No. 123:

	1997	1996
Net earnings (loss)		
As reported	$(178)	$1,818
Pro forma under SFAS No. 123	(332)	1,852
Basic earnings (loss) per share		
As reported	$ (.18)	$ 1.88
Pro forma under SFAS No. 123	(.34)	1.91
Diluted earnings (loss) per share		
As reported	$ (.18)	$ 1.85
Pro forma under SFAS No. 123	(.34)	1.89

Performance Shares

Performance Shares are stock units that are convertible to common stock contingent upon stock price performance. If, at any time up to five years after award, the stock price reaches and maintains a price equal to 161.0% of the stock price at the date of the award (representing a growth rate of 10% compounded annually for five years), 25% of the Performance Shares awarded are convertible to common stock. Likewise, at stock prices equal to 168.5%, 176.2%, 182.4%, 192.5% and 201.1% of the stock price at the date of award, the cumulative portion of awarded Performance Shares convertible to common stock are 40%, 55%, 75%, 100% and 125%, respectively. Performance Shares awards not converted to common stock expire five years after the date of the award; however, the Compensation Committee of the Board of Directors may, in its discretion, allow vesting of up to 100% of the target Performance Shares if the Company's total shareholder return (stock price appreciation plus dividends) during the five-year performance period exceeds the average total shareholder return of the S&P 500 over the same period.

As of December 31, 1998, the following number of Performance Shares were outstanding: 3,586,268 at an issue price of $50 11/16 and an expiration date of February 23, 2003; and 45,771 at an issue price of $33 9/16 and an expiration date of December 14, 2003. The Company recognized a share-based expense of $38 in 1998 attributable to Performance Shares.

Other stock unit awards

The total number of stock unit awards that are convertible only to common stock and not contingent upon stock price were 1,161,652, 301,631 and 376,628 as of December 31, 1998, 1997 and 1996, respectively.

ShareValue Trust

The ShareValue Trust, established effective July 1, 1996, is a 14-year irrevocable trust that holds Boeing common stock, receives dividends, and distributes to employees appreciation in value above a 3% per annum threshold rate of return. As of December 31, 1998, the Trust had acquired 26,025,460 shares of the Company's common stock, equivalent to $1,150 of market value based upon the average price per share on June 28, 1996, which was $44 3/16, plus 11,253,197 shares of stock, equivalent to $550 of market value based upon the average price per share on January 1, 1998, which was $48 7/8. The Trust has additionally acquired 887,944 shares representing reinvested dividends, net of shares used to pay the nominal administrative costs borne by the Trust.

Two investment periods began on July 1, 1996. One period was established with a duration of two years through June 30, 1998, and the other with a duration of four years through June 30, 2000. Each period was allocated one-half of the total shares. At the end of each initial investment period, a new four-year investment period will begin, resulting in overlapping periods with potential distributions every two years. The Trust fund market value after distribution will be the base from which the distributable market value appreciation over the threshold for the succeeding investment period will be determined. On June 30, 1998, the first investment period of the Trust ended with a fund appreciation insufficient to generate a distribution to employees.

The ShareValue Trust is accounted for as a contra-equity account and stated at market value. Market value adjustments are offset to additional paid-in capital. The Company recognized a share-based expense of $72, $(99) and $133 for the years 1998, 1997 and 1996, respectively, attributable to the ShareValue Program. The 1998 ShareValue Trust expense was calculated under the provisions of SFAS No. 123.

Stock options

The Company's 1997 Incentive Stock Plan permits the grant of stock options, stock appreciation rights (SARs) and restricted stock awards (denominated in stock or stock units) to any employee of the Company or its subsidiaries. Under the terms of the plan, 30,000,000 shares are authorized for issuance upon exercise of options, as payment of SARs and as restricted stock awards, of which no more than an aggregate of 6,000,000 shares are available for issuance as restricted stock awards and no more than an aggregate of 3,000,000 shares are available for issuance as restricted stock that is subject to restrictions based on continuous employment for less than three years. This authorization for issuance under the 1997 plan will terminate on April 30, 2007. As of December 31, 1998, no SARs have been granted under the 1997 plan. The 1993 Incentive Stock Plan permitted the grant of options, SARs and stock to employees of the Company or its subsidiaries. The 1988 and 1984 stock option plans permitted the grant of options or SARs to officers or other key employees of the Company or its subsidiaries. No further grants may be awarded under these three plans.

Options and SARs have been granted with an exercise price equal to the fair market value of the Company's stock on the date of grant and expire ten years after the grant date. Vesting is generally over a five-year period, with portions of a grant becoming exercisable at one year, three years and five years after the grant date. SARs, which have been granted only under the 1988 and 1984 plans, were granted in tandem with stock options; therefore, exercise of the SAR cancels the related option and exercise of the option cancels the attached SAR.

In 1994, McDonnell Douglas shareholders approved the 1994 Performance Equity Incentive Plan. Restricted stock issued under this plan prior to 1997 vested upon the merger between McDonnell Douglas and The Boeing Company. As of December 31, 1998, a total of 594,000 shares had been granted, and 454,285 remain restricted. Substantially all compensation relating to these restricted shares is being amortized to expense over a period of six years. Unearned compensation is reflected as a component of shareholders' equity.

Information concerning stock options issued to directors, officers and other employees is presented in the following table.

	1998		1997		1996	
(Shares in thousands)	*Shares*	*Weighted Average Exercise Price*	*Shares*	*Weighted Average Exercise Price*	*Shares*	*Weighted Average Exercise Price*
Number of shares under option:						
Outstanding at beginning of year	27,705	$32.36	26,525	$25.47	28,754	$20.19
Granted	3,772	52.72	6,320	53.16	6,692	40.32
Exercised	(2,493)	20.77	(4,502)	21.77	(8,356)	19.34
Canceled or expired	(255)	46.35	(223)	47.84	(233)	35.92
Exercised as SARs	(76)	19.27	(415)	15.21	(332)	13.70
Outstanding at end of year	28,653	36.03	27,705	32.36	26,525	25.47
Exercisable at end of year	15,577	$29.57	12,277	$24.09	12,412	$20.13

As of December 31, 1998, 21,681,000 shares were available for grant under the 1997 Incentive Stock Plan, and 9,548,000 shares were available for grant under the Incentive Compensation Plan.

The following table summarizes information about stock options outstanding at December 31, 1998 (shares in thousands).

	Options Outstanding		
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price
$10 to $19	4,315	4.5	$16.35
$20 to $29	8,480	5.0	23.32
$30 to $39	1,779	7.1	38.44
$40 to $49	4,598	7.4	41.25
$50 to $59	9,481	8.7	53.37
	28,653		

	Options Exercisable	
Range of Exercise Prices	Shares	Weighted Average Exercise Price
$10 to $19	3,847	$16.61
$20 to $29	6,673	23.29
$30 to $39	101	37.68
$40 to $49	2,148	41.04
$50 to $59	2,808	53.18
	15,577	

The Company has determined the weighted average fair values of stock-based arrangements granted, including the ShareValue Trust, during 1998, 1997 and 1996 to be $19.99, $20.67 and $8.39, respectively. The fair values of stock-based compensation awards granted and of potential distributions under the ShareValue Trust arrangement were estimated using a binomial option-pricing model with the following assumptions.

	Grant Date	Expected Option Term	Expected Volatility
1998	4/13/98	9 years	20%
1997	1/13/97	9 years	19%
	2/24/97	9 years	19%
1996	1/11/96	5 years	17%
	7/1/96	2 years	17%
	7/1/96	4 years	17%
	2/26/96	9 years	21%

	Grant Date	Expected Dividend Yield	Risk-Free Interest Rate
1998	4/13/98	1.1%	5.9%
1997	1/13/97	1.1%	6.6%
	2/24/97	1.1%	6.6%
1996	1/11/96	1.3%	5.3%
	7/1/96	–	6.3%
	7/1/96	–	6.3%
	2/26/96	1.2%	6.0%

The Company recognized a share-based expense of $31 in 1998 attributable to stock options with an offset to additional paid-in capital, and recognized no expense in 1997 and 1996.

Note 17
Derivative Financial Instruments

The derivative financial instruments held by the Company at December 31, 1998, consisted of simple and specifically tailored interest rate swaps and foreign currency forward contracts. The Company does not trade in derivatives for speculative purposes.

The interest rate swaps, which are associated with certain customer financing receivables and long-term debt, are designed to achieve a desired balance of fixed and variable rate positions. These swaps are accounted for as integral components of the associated receivable and debt, with interest accrued and recognized based upon the effective rates. Due to the component nature of these interest rate swaps, there are no associated gains or losses. (See Note 8, Note 13 and Note 20.)

Foreign currency forward contracts are entered into to hedge specific receipt and expenditure commitments made in foreign currencies. As of December 31, 1998, the notional amount of foreign currency forward contracts through 2002 denominated in foreign currencies was $395, with unrealized gains, net of unrealized losses, of $2.

The Company believes that there is no significant credit risk associated with the potential failure of any counterparty to perform under the terms of derivative financial instruments.

Note 18
Financial Instruments with Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business, principally relating to customer financing activities. Financial instruments with off-balance-sheet risk include financing commitments, credit guarantees, and participation in customer financing receivables with third-party investors that involve interest rate terms different from the underlying receivables.

Irrevocable financing commitments related to aircraft on order, including options, scheduled for delivery through 2004 totaled $6,239 and $6,029 as of December 31, 1998 and 1997. The Company anticipates that not all of these commitments will be used and that it will be able to arrange for third-party investors to assume a portion of the remaining commitments, if necessary. The Company has additional commitments to arrange for commercial equipment financing totaling $163 and $132 as of December 31, 1998 and 1997.

Participations in customer financing receivables with third-party investors that involve interest rate terms different from the underlying receivables totaled $62 and $64 as of December 31, 1998 and 1997.

The Company's maximum exposure to credit-related losses associated with credit guarantees, without regard to collateral, totaled $1,426 ($730 associated with commercial aircraft and collateralized) and $955 ($660 associated with commercial aircraft and collateralized) as of December 31, 1998 and 1997.

The Company's maximum exposure to losses associated with asset value guarantees, without regard to collateral, totaled $444 and $470 as of December 31, 1998 and 1997. These asset value guarantees relate to commercial aircraft and are collateralized.

Note 19
Significant Group Concentrations of Credit Risk

Financial instruments involving potential credit risk are predominantly with commercial airline customers and the U.S. Government. As of December 31, 1998, off-balance-sheet financial instruments described in Note 18 predominantly related to commercial aircraft customers. Of the $8,999 in accounts receivable and customer financing included in the Consolidated Statements of Financial Position, $4,871 related to commercial aircraft customers and $2,058 related to the U.S. Government. No single commercial airline customer is associated with more than 17% of all financial instruments relating to customer financing. Financing for aircraft is collateralized by security in the related asset, and historically the Company has not experienced a problem in accessing such collateral.

Of the $4,871 of commercial accounts receivable and aircraft customer financing, $3,511 related to customers the Company believes have less than investment-grade credit. Similarly, of the $6,239 of irrevocable financing commitments related to aircraft on order including options, $4,067 related to customers the Company believes have less than investment-grade credit.

The Company has customer financing and commitments to arrange for future financing with Trans World Airlines (TWA) totaling $2,363. TWA continues to operate under a reorganization plan, confirmed by the U.S. Bankruptcy Court in 1995, which restructured its indebtedness and leasehold obligations to its creditors. In addition, TWA continues to face financial and operational challenges. Further deterioration of TWA's financial condition could adversely affect the performance of customer financing extended to TWA; however, based on the Company's assessment of the underlying collateral position held by the Company, possible future non-performance of financing currently extended to TWA would not have a material adverse impact on the Company's liquidity or results of operations.

Note 20
Disclosures about Fair Value of Financial Instruments

As of December 31, 1998 and 1997, the carrying amount of accounts receivable was $3,288 and $3,121, and the fair value of accounts receivable was estimated to be $3,239 and $3,033. The lower fair value reflects a discount due to deferred collection for certain receivables that will be collected over an extended period. The carrying value of accounts payable is estimated to approximate fair value.

The carrying amount of notes receivable, net of valuation allowance, is estimated to approximate fair value. Although there are generally no quoted market prices available for customer financing notes receivable, the valuation assessments were based on the respective interest rates, risk-related rate spreads and collateral considerations.

As of December 31, 1998 and 1997, the carrying amount of debt, net of capital leases, was $6,539 and $6,354, and the fair value of debt, based on current market rates for debt of the same risk and maturities, was estimated at $7,198 and $6,996. The Company's debt, however, is generally not callable until maturity.

With regard to financial instruments with off-balance-sheet risk, it is not practicable to estimate the fair value of future financing commitments, and all other off-balance-sheet financial instruments are estimated to have only a nominal fair value. The terms and conditions reflected in the outstanding guarantees and commitments for financing assistance are not materially different from those that would have been negotiated as of December 31, 1998.

Note 21
Contingencies

Various legal proceedings, claims and investigations related to products, contracts and other matters are pending against the Company. Most significant legal proceedings are related to matters covered by insurance. Major contingencies are discussed below.

The Company is subject to federal and state requirements for protection of the environment, including those for discharge of hazardous materials and remediation of contaminated sites. Due in part to their complexity and pervasiveness, such requirements have resulted in the Company being involved with related legal proceedings, claims and remediation obligations since the 1980s.

The Company routinely assesses, based on in-depth studies, expert analyses and legal reviews, its contingencies, obligations and commitments for remediation of contaminated sites, including assessments of ranges and probabilities of recoveries from other responsible parties who have and have not agreed to a settlement and of recoveries from insurance carriers. The Company's policy is to immediately accrue and charge to current expense identified exposures related to environmental remediation sites based on conservative estimates of investigation, cleanup and monitoring costs to be incurred.

The costs incurred and expected to be incurred in connection with such activities have not had, and are not expected to have, a material impact to the Company's financial position. With respect to results of operations, related charges have averaged less than 2% of annual net earnings exclusive of special charges. Such accruals as of December 31, 1998, without consideration for the related contingent recoveries from insurance carriers, are less than 2% of total liabilities.

Because of the regulatory complexities and risk of unidentified contaminated sites and circumstances, the potential exists for environmental remediation costs to be materially different from the estimated costs accrued for identified contaminated sites. However, based on all known facts and expert analyses, the Company believes it is not reasonably likely that identified environmental contingencies will result in additional costs that would have a material adverse impact to the Company's financial position or operating results and cash flow trends.

The Company is subject to U.S. Government investigations of its practices from which civil, criminal or administrative proceedings could result. Such proceedings could involve claims by the Government for fines, penalties, compensatory and treble damages, restitution and/or forfeitures. Under government regulations, a company, or one or more of its operating divisions or subdivisions, can also be suspended or debarred from government contracts, or lose its export privileges, based on the results of investigations. The Company believes, based upon all available information, that the outcome of any such government disputes and investigations will not have a material adverse effect on its financial position or continuing operations.

In 1991 the U.S. Navy notified the Company and General Dynamics Corporation (the Team) that it was terminating for default the Team's contract for development and initial production of the A-12 aircraft. The Team filed a legal action to contest the Navy's default termination, to assert its rights to convert the termination to one for "the convenience of the Government," and to obtain payment for work done and costs incurred on the A-12 contract but not paid to date. At December 31, 1998, inventories included approximately $581 of recorded costs on the A-12 contract, against which the Company has established a loss provision of $350. The amount of the provision, which was established in 1990, was based on the Company's belief, supported by an opinion of outside counsel, that the termination for default would be converted to a termination for convenience, that the Team would establish a claim for contract adjustments for a minimum of $250, that there was a range of reasonably possible results on termination for convenience, and that it was prudent to provide for what the Company then believed was the upper range of possible loss on termination for convenience, which was $350.

On December 19, 1995, the U.S. Court of Federal Claims ordered that the Government's termination of the A-12 contract for default be converted to a termination for convenience of the Government. On December 13, 1996, the court issued an opinion confirming its prior no-loss adjustment and no-profit recovery order. On December 5, 1997, the Court issued an opinion confirming its preliminary holding that plaintiffs were entitled to certain adjustments to the contract funding, increasing the plaintiffs' possible recovery to $1,200. On March 31, 1998, the Court entered a judgment, pursuant to a March 30, 1998, opinion and order, determining that plaintiffs were entitled to be paid that amount, plus statutory interest from June 26, 1991, until paid.

Although the Government has appealed the resulting judgment, the Company believes the judgment will be sustained. Final resolution of the A-12 litigation will depend on such appeals and possible further litigation, or negotiations, with the Government. If sustained, however, the expected damages judgment, including interest, could result in pretax income that would more than offset the $350 loss provision established in 1990.

On October 31, 1997, a federal securities lawsuit was filed against the Company in the U.S. District Court for the Western District of Washington in Seattle. The lawsuit named as defendants the Company and three of its executive officers. Additional lawsuits of a similar nature have been filed. The plaintiffs in each lawsuit seek to represent a class of purchasers of Boeing stock between July 21, 1997, and October 22, 1997, (the "Class Period"), including recipients of Boeing stock in the McDonnell Douglas merger. July 21, 1997, was the date on which the Company announced its second quarter results, and October 22, 1997, was the date on which the Company announced charges to earnings associated with production problems being experienced on commercial aircraft programs. The lawsuits generally allege that the defendants desired to keep the Company's share price as high as possible in order to ensure that the McDonnell Douglas shareholders would approve the merger and, in the case of two of the individual defendants, to benefit directly from the sale of Boeing stock during the Class Period. The plaintiffs seek compensatory damages and treble damages. The Company believes that the allegations are without merit and that the outcome of these lawsuits will not have a material adverse effect on its earnings, cash flow or financial position.

On June 6, 1998, sixteen African American employees of The Boeing Company, previously employed at several distinct units of The Boeing Company, McDonnell Douglas Corporation and Rockwell International Corporation, filed a complaint in the U.S. District Court for the Western District of Washington (Washington Class Action) alleging, on the basis of race, discrimination in promotions and training. The plaintiffs also allege retaliation and harassment and seek, among other things, an order certifying a class of all African American employees who are currently working or have worked for the three companies during the past few years. Also, on July 31, 1998, seven African American employees of the helicopter division of the Military Aircraft and Missile Systems Group in Philadelphia filed an action in the U.S. District Court for the Eastern District of Pennsylvania (Philadelphia Class Action) alleging, on the basis of race, discrimination in compensation, promotions and terminations. The complaint also alleges retaliation at that division. Plaintiffs are seeking an order certifying a class of all African American employees of The Boeing Company. In September 1998, the Court denied plaintiffs' motion seeking class certification, but allowed plaintiffs to renew their motion upon completion of class discovery.

On January 25, 1999, the U.S. District Court in the Western District of Washington entered an order preliminarily approving a proposed Consent Decree, which settles both the Washington Class Action and the Philadelphia Class Action, along with a multi-plaintiff racial discrimination lawsuit. The order, *inter alia*, conditionally certified a nationwide class of 20,000 current and former African American Boeing (including all U.S. subsidiaries and former McDonnell Douglas Corporation and Rockwell International) employees. If approved by the Court, the Company will pay $15 allocated in a manner described in the proposed Consent Decree. The Company will devise systems changes that will inform hourly employee class members about the promotion selection process, and which employee was awarded a certain promotion; provide training and other programs to assist employees with career development; employ a consultant to assess these system changes; implement across the system a revised first-level management selection process and revised internal complaint process; and implement enforcement procedures to maintain a harassment-free workplace.

A hearing is set for May 26, 1999, to determine the fairness of the proposed Consent Decree, and if so determined, for the Court to approve the Consent Decree. The Company believes that the proposed Consent Decree, if approved, will not have a materially adverse effect on its earnings, cash flow or financial position.

Note 22
Segment Information

Segment information may be found on pages 50-52.

Report of Management

To the Shareholders of The Boeing Company:

The accompanying consolidated financial statements of The Boeing Company and subsidiaries have been prepared by management who are responsible for their integrity and objectivity. The statements have been prepared in conformity with generally accepted accounting principles and include amounts based on management's best estimates and judgments. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.

Management has established and maintains a system of internal control designed to provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period. The system of internal control includes widely communicated statements of policies and business practices which are designed to require all employees to maintain high ethical standards in the conduct of Company affairs. The internal controls are augmented by organizational arrangements that provide for appropriate delegation of authority and division of responsibility and by a program of internal audit with management follow-up.

The financial statements have been audited by Deloitte & Touche LLP, independent certified public accountants. Their audit was conducted in accordance with generally accepted auditing standards and included a review of internal controls and selective tests of transactions. The Independent Auditors' Report appears below.

The Audit Committee of the Board of Directors, composed entirely of outside directors, meets periodically with the independent certified public accountants, management and internal auditors to review accounting, auditing, internal accounting controls, litigation and financial reporting matters. The independent certified public accountants and the internal auditors have free access to this committee without management present.

Philip M. Condit
Chairman of the Board and
Chief Executive Officer

Deborah C. Hopkins
Senior Vice President and
Chief Financial Officer

Gary W. Beil
Vice President and
Controller

Independent Auditors' Report

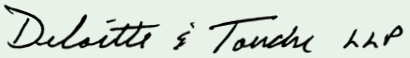
Board of Directors and Shareholders, The Boeing Company:

We have audited the accompanying consolidated statements of financial position of The Boeing Company and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits. The consolidated financial statements give retroactive effect to the merger of The Boeing Company and McDonnell Douglas Corporation, which has been accounted for as a pooling of interests as described in Note 2 to the consolidated financial statements. We did not audit the statements of operations, shareholders' equity, and cash flows of McDonnell Douglas Corporation for the year ended December 31, 1996, which statements reflect total revenues of $13,834,000,000. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for McDonnell Douglas Corporation for 1996, is based solely on the report of such other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Boeing Company and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

As discussed in Notes 1 and 16 to the financial statements, The Boeing Company has changed its method of expense recognition for share-based incentive plans in 1998.



Deloitte & Touche LLP
Seattle, Washington
January 26, 1999

Quarterly Financial Data (Unaudited)

(Dollars in millions except per share data)	1998				1997			
Quarter	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Sales and other operating revenues	$17,099	$12,721	$13,389	$12,945	$11,727	$11,371	$12,343	$10,359
Earnings from operations	602	430	416	119	(782)	(1,019)	707	838
Net earnings	465	347	258	50	(498)	(696)	476	540
Basic earnings per share	.49	.36	.26	.05	(.51)	(.72)	.49	.56
Diluted earnings per share	.48	.36	.26	.05	(.51)	(.72)	.48	.55
Cash dividends per share	.14	.14	.14	.14	.14	.14	.14	.14
Market price:								
High	44.00	50.13	56.25	54.75	55.25	60.50	58.00	57.25
Low	29.50	30.38	42.13	42.81	43.00	51.31	47.00	49.31
Quarter end	32.63	34.31	44.56	52.13	48.94	54.44	53.06	49.31

Five-Year Summary

(Dollars in millions except per share data)	1998	1997	1996	1995	1994
Operations					
Sales and other operating revenues					
Commercial Airplanes	$ 35,545	$ 26,929	$ 19,916	$17,511	$19,778
Military Aircraft and Missiles	12,990				
Space and Communications	6,889				
Information, Space and Defense Systems	19,879	18,125	14,934	14,849	14,676
Customer and Commercial Financing/Other	730	746	603	600	515
Total	$ 56,154	$ 45,800	$ 35,453	$32,960	$34,969
Net earnings (loss)	$ 1,120	$ (178)	$ 1,818	$ (36)	$ 1,483
Basic earnings (loss) per share (a)	1.16	(.18)	1.88	(.04)	1.50
Diluted earnings (loss) per share (a)	1.15	(.18)	1.85	(.04)	1.48
Net earnings excluding share-based plans and special charges (b)	$ 1,216	$ 632	$ 1,905	$ 1,479	$ 1,483
Diluted earnings per share (a)	1.25	.64	1.94	1.49	1.48
Percent of sales	2.2%	1.4%	5.4%	4.5%	4.2%
Cash dividends paid	$ 564	$ 557	$ 480	$ 434	$ 395
Per share	.56	.56	.55	.50	.50
Other income, principally interest	283	428	388	280	194
Research and development expense	1,895	1,924	1,633	1,674	2,076
General and administrative expense	1,993	2,187	1,819	1,794	1,776
Additions to plant and equipment, net	1,584	1,391	971	747	883
Depreciation of plant and equipment	1,386	1,266	1,132	1,172	1,294
Employee salaries and wages	12,074	11,287	9,225	8,688	9,037
Year-end workforce	231,000	238,000	211,000	169,000	183,000
Financial position at December 31					
Total assets	$ 36,672	$ 38,024	$ 37,880	$31,877	$32,259
Working capital	2,953	5,111	7,783	7,490	6,299
Net plant and equipment	8,589	8,391	8,266	7,927	8,399
Cash and short-term investments	2,462	5,149	6,352	4,527	3,064
Total debt	6,972	6,854	7,489	5,401	5,247
Customer and commercial financing assets	5,711	4,600	3,888	4,212	5,408
Shareholders' equity	12,316	12,953	13,502	12,527	13,173
Per share	13.13	13.31	13.96	12.80	13.37
Common shares outstanding (in millions) (a)	937.9	973.5	967.2	978.6	985.3
Contractual backlog					
Commercial Airplanes	$ 86,057	$ 93,788	$ 86,151	$73,715	$68,158
Military Aircraft and Missiles	17,007				
Space and Communications	9,832				
Information, Space and Defense Systems	26,839	27,852	28,022	21,773	18,798
Total	$112,896	$121,640	$114,173	$95,488	$86,956

Cash dividends have been paid on common stock every year since 1942.

(a) Computation excludes outstanding shares held by the ShareValue Trust.

(b) Special charges include $600 pretax special retirement charge and $1,838 pretax charge associated with the MD-11 program in 1995, and $1,400 pretax charge associated with Douglas products in 1997.

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Board of Directors

John H. Biggs
Chairman of the Board, President and Chief Executive Officer
Teachers Insurance and Annuity Association – College Retirement Equities Fund
Committees: Compensation, Organization and Nominating

John E. Bryson
Chairman of the Board and Chief Executive Officer
Edison International
Committees: Audit* and Finance

Philip M. Condit
Chairman of the Board and Chief Executive Officer
The Boeing Company

Kenneth M. Duberstein
Chairman of the Board and Chief Executive Officer
The Duberstein Group
Committees: Audit and Finance

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Boise Cascade Corporation
Committees: Audit and Finance*

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Massachusetts Institute of Technology
Committees: Audit and Finance

John F. McDonnell
Retired Chairman of the Board
McDonnell Douglas Corporation
Committees: Audit and Finance

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Professor in the School of Engineering and Senior Fellow at the Institute for International Studies, Stanford University
Committees: Compensation, Organization and Nominating

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Retired Chairman of the Board and Chief Executive Officer
Ford Motor Company
Committees: Compensation,* Organization and Nominating

Charles M. Pigott
Chairman Emeritus
PACCAR Inc
Committees: Compensation, Organization and Nominating*

Rozanne L. Ridgway
Former Assistant Secretary of State for Europe and Canada
Committees: Audit and Finance

Harry C. Stonecipher
President and Chief Operating Officer
The Boeing Company

George H. Weyerhaeuser
Chairman of the Board
Weyerhaeuser Company
Committees: Compensation, Organization and Nominating

**Committee Chair*

Company Officers

Philip M. Condit
Chairman of the Board and Chief Executive Officer

Harry C. Stonecipher
President and Chief Operating Officer

James F. Albaugh
Senior Vice President – President, Boeing Space and Communications Group

Gary W. Beil
Vice President and Controller

Theodore J. Collins
Senior Vice President and General Counsel

James B. Dagnon
Senior Vice President – People

Christopher W. Hansen
Senior Vice President – Washington, D.C., Operations

Deborah C. Hopkins
Senior Vice President and Chief Financial Officer

James C. Johnson
Vice President, Corporate Secretary and Assistant General Counsel

Alan R. Mulally
Senior Vice President – President, Boeing Commercial Airplanes Group

James F. Palmer
Senior Vice President – President, Boeing Shared Services Group

Michael M. Sears
Senior Vice President – President, Boeing Military Aircraft and Missile Systems Group

John D. Warner
Senior Vice President and Chief Administrative Officer

The Boeing Company General Offices
The Boeing Company
7755 East Marginal Way South
Seattle, WA 98108
(206) 655-2121

Transfer Agent, Registrar and Dividend Paying Agent
The transfer agent is responsible for shareholder records, issuance of stock certificates, distribution of dividends and IRS Form 1099. Requests concerning these or other related shareholder matters are most efficiently answered by contacting:

BankBoston, N.A.
c/o EquiServe L.P.
P.O. Box 8040
Boston, MA 02266-8040
(888) 777-0923 (toll-free for domestic U.S. callers)
(781) 575-3400 (call collect for non-U.S. callers)

Boeing shareholders can also obtain answers to frequently asked questions (FAQ), such as transfer instructions, direct deposit of dividends, and terms of the Dividend Reinvestment and Stock Purchase Plan through EquiServe's home page at http://www.equiserve.com.

Annual Meeting
The annual meeting of Boeing shareholders will be held at The Westin Los Angeles Airport Hotel, 5400 West Century Boulevard, Los Angeles, California, at 10:00 a.m. Pacific time on Monday, April 26, 1999. Formal notice of the meeting, proxy statement, form of proxy, and annual report were mailed to shareholders beginning March 19, 1999.

Electronic Proxy Receipt and Voting
Shareholders now have the option of voting their proxies by Internet or telephone, instead of returning their proxy cards through the mail. Instructions are in the proxy statement and attached to the proxy card for the 1999 annual meeting.

Registered shareholders can go to http://www.econsent.com/ba to sign up to receive their annual report and proxy statement in an electronic format in the future. Beneficial owners may contact the brokers or banks who hold their stock to find out whether electronic receipt is available. If you choose electronic receipt, you will not receive the paper form of the annual report and proxy statement. Instead, you will receive notice by e-mail when the materials are available on the Internet.

Written Inquiries May Be Sent To:

Shareholder Services
Mail Code 13-08
The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

Investor Relations
Mail Code 10-16
The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

Company Shareholder Services
Pre-recorded shareholder information and quarterly earnings data are available toll-free from Boeing Shareholder Services at (800) 457-7723. You may also speak to a Boeing Shareholder Services representative at (206) 655-1990 between 8:00 a.m. and 4:30 p.m. Pacific time.

To Request an Annual Report, Proxy Statement, Form 10-K or Form 10-Q:

Data Shipping
The Boeing Company
Mail Code 3T-33
P.O. Box 3707
Seattle, WA 98124-2207
or call (425) 393-4964 or (800) 457-7723

Boeing on the World Wide Web
The Boeing home page – http://www.boeing.com – is your entry point for viewing the latest Company information about its products or for viewing electronic versions of the annual report, proxy statement, Form 10-K, or Form 10-Q.

Duplicate Shareholder Accounts
Registered shareholders with duplicate accounts may call our transfer agent, EquiServe, for instructions on consolidating those accounts. The Company recommends that registered shareholders always use the same form of their names in all stock transactions to be handled in the same account. Registered shareholders may also ask EquiServe to eliminate excess mailings of annual reports going to shareholders in the same household.

Change of Address
For Boeing registered shareholders:
BankBoston, N.A.
c/o EquiServe L.P.
P.O. Box 8040
Boston, MA 02266-8040
or call (888) 777-0923

For Boeing beneficial owners:
Contact your brokerage firm or bank to give notice of your change of address.

Stock Exchanges
The Company's common stock is traded principally on the New York Stock Exchange; the trading symbol is BA. Boeing common stock is also listed on the Amsterdam, Brussels, London, Swiss and Tokyo stock exchanges. Additionally, the stock is traded, without being listed, on the Boston, Chicago, Cincinnati, Pacific and Philadelphia exchanges.

General Auditors
Deloitte & Touche LLP
700 Fifth Avenue, Suite 4500
Seattle, WA 98104-5044
(206) 292-1800

Equal Opportunity Employer
Boeing is an equal opportunity employer and seeks to attract and retain the best-qualified people regardless of race, color, religion, national origin, gender, sexual orientation, age, disability, or status as a disabled or Vietnam Era Veteran.

Design and production: Rick Eiber Design (RED) and a.k.a. design
Printed in USA

The Boeing Company
General Offices
7755 East Marginal Way South
Seattle, Washington 98108

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